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FARM COMMODITY MARKET PERFORMANCE AND ECONOMIC FORECASTS

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FARM COMMODITY MARKET PERFORMANCE AND ECONOMIC FORECASTS

MONDAY, JANUARY 23, 1984

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2525, the Dirksen Federal Building, Chicago, Ill., Hon. Roger W. Jepsen (chairman of the committee) presiding.

Present: Senators Jepsen and Abdnor.

Also present: Robert J. Tosterud, professional staff member.

OPENING STATEMENT OF SENATOR JEPSEN, CHAIRMAN

Senator JEPSEN. This hearing will come to order.

I want to first extend the committee's welcome to today's witnesses.

The primary subject of today's hearing, farm commodity market performance, is highly complex and controversial. The purpose of this hearing is to improve the public's understanding of current price levels and recent trends in commodity markets, specifically the soybean and corn markets. Chase Econometrics will also present its most recent 1984 and 1985 economic forecasts for the farm sector. These forecasts, among other things, will give us at least an initial indication of what kind of economic environment we may be facing as we debate the 1985 farm bill.

Following the most massive and costly supply control program in U.S. history and our worst drought in 50 years, projected 1983–84 ending stocks of corn were reduced by 75 percent, from a July projection of over 2 billion bushels to a December projection of 512 million bushels. Ending stocks for soybeans were cut better than 50 percent, from 325 million bushels to 150 million bushels. In September of last year, the U.S. Department of Agriculture projected 1983–84 ending corn stocks of 900 million bushels and estimated a season average corn price of between $3.50 and $3.75 per bushel. Last month, USDA projected ending corn stocks at 512 million bushels and a season average corn price of between $3.25 and $3.55 per bushel. It is difficult for many, including myself, I readily admit, to understand why prices are falling given such dramatic declines in supplies: A 40-percent drop in anticipated ending corn supplies yielded better than a 6-percent drop in projected corn prices. Not a traditional economic relationship. The market's reaction to this month's discovery by USDA of an additional 58 million bushels of soybeans and 83 million bushels of corn resulting in but

a little more than a 2-percent adjustment in combined corn and soybean production levels is very difficult to comprehend.

The frustration, disappointment, and even anger being expressed by America's farmers is understandable. Today's depressed farm economy is readily and directly treaceable to the economic policies of the late 1970's which yielded hyperinflation and interest rate levels.

Between 1977 and 1980 farm production costs increased 45 percent, from $89 billion to $129 billion. Those 3 years of hyperinflation have devastated farm net income and thereby the farm economy. Ten years ago farm cash sales totaled $87 billion and production expenses were $65 billion, yielding a net income from farm sales of $22 billion. Back in 1973 it took less than $4 of product sales to generate $1 of net income. But, while farm cash receipts have increased 66 percent since 1973, production costs skyrocketed 117 percent. As a result, today a farmer needs to sell over $32 of product to realize $1 of net income. Had those inflation rates of 12 percent in 1978, 19 percent in 1979, and 9 percent in 1980 been kept down to just 8 percent each year by the previous administration, farm net income from sales would have been $22.5 billion in 1982 rather than $4.5 billion. Those 3 inflationary years have cost farmers over $70 billion of net income during the last 5 years.

In addition, when the previous administration took control of this country's economic policies in 1977 the interest rate on non-real-estate farm loans was 8.8 percent. Four years later, this interest rate stood at 17.9. The prime interest rate went from 6.25 percent to 21.5 percent. The prime is currently at 11 percent.

This doubling of interest rates more than doubled farmers' interest rate payments from $7 billion in 1976 to $16 billion in 1980. On January 1, 1977, total farm debt stood at $103 billion. Four years later, on January 1, 1981, total farm debt had climbed 70 percent to $175 billion. Tragically, this phenomenal addition to debt incurred by farmers during the late 1970's will burden generations of farmers to come.

Add the grain embargo of January 1980 and one begins to understand the roots of the farmers' current financial plight.

Commensurate with these record cost increases came record crop production levels, a global recession and the buildup of price-depressing carryover stocks. The Reagan administration implemented a $30 billion supply control effort, including the payment-in-kind program, and created and expanded its export blended credit program, to reduce stocks and improve farm prices and incomes. Aided and abetted by the drought, supply control programs achieved their objectives. With talk of "beans in the teens" farmers for the first time in several years looked to the market and away from the Government Treasury as the source of improved earnings and relief from financial stress. The first official measure of the impact of the drought came in August and prices rose. Subsequent measures showed further tightening of supplies yet prices dropped dramatically. Farmer—and I might add farm policymaker—expectations were shattered. For those of us who believe that the ultimate judge of the effectiveness of farm programs—or any Government program for that matter—is the marketplace, these results were extremely disappointing.

I must add that I am well aware of the allegations made in the press that a few large firms are collusively manipulating the commodity market. Even the notion that a few firms could exercise such influence thereby depriving millions of their earned economic rewards and negating a $30 billion public expenditure, is repulsive. Such an exercise of influence would also be criminal.

I am also aware of the Commodity Futures Trading Commission's November rule enforcement review of the Chicago Board of Trade. This report is highly critical of the board of trade's market surveillance and disciplinary programs and concluded that the Chicago Board of Trade was not complying with the Commodity Exchange Act.

This report, prepared under the auspices of its chairman, Susan Phillips, found:

First. That the board's disciplinary program was not in compliance with the Commodity Exchange Act or CFTC regulations;

Second. The board's disciplinary program did not appear to provide an effective deterrent to serious violations;

Third. The board was proven reluctant to discipline members as evidenced by the board's failure to sanction more than two members for trading violations since September 1982 and the board's outright dismissal of several cases for which there appeared sufficient evidence to issue complaints;

Fourth. The level of sanctions imposed by the board appears ineffective, particularly in light of the difficulties inherent in detecting potential rule violations;

Fifth. The likelihood of detection of trade practice violations is remote and the level of sanctions does not pose adequate deterrents;

Sixth. The board consistently failed to issue written decisions explaining the bases for its determination not to follow recommendations to proceed to issue preliminary charges;

Seventh. The board provides insufficient support to its internal investigations and audits staff reducing this staff's motivation to perform their functions in an effective manner; and

Eighth. The board has failed to fully implement its commitments pursuant to a 1982 CFTC review which found serious deficiencies in the board's rule enforcement program.

The 1983 CFTC review contained several recommendations commensurate with its findings including requiring the board to implement a comprehensive large trade reporting system; that the board review its methods to detect noncompetitive trading practices; that the board expedite its investigations; that the board provide full documentation of all work performed by its investigators and written decisions relative to disciplinary actions.

The Joint Economic Committee has the tradition, obligation, and legislated authority to analyze the condition, prospects, and performance of major sectors of our economy. The food and agricultural system of the United States as an industry accounts for over 22 percent of U.S. employment and over 20 percent of this country's gross national product. It has been estimated that for every dollar's worth of product created by the farming sector, $6 are generated for other sectors of our economy. Assets devoted to agriculture amount to over $1 trillion, a figure equal to almost 90 percent of

the combined total assets of all manufacturing corporations in the United States. Agriculture is this Nation's largest industry. During the last 30 months the Joint Economic Committee and its Subcommittee on Agriculture and Transportation, chaired by Senator Abdnor of South Dakota, has held 30 public hearings on the importance of agriculture and Federal farm policy. The committee's attention to and interest in today's topic is well established.

I must emphasize that this committee is not on a witch hunt nor will it be used as a harvester of sour grapes. We will also not serve as a vehicle for deception and patronization.

Our purpose here today is to begin the process of strengthening the farmers' confidence and trust in the marketplace. Let us start by not deluding ourselves: Farmers distrust the market as much as they distrust the Government. This distrust is inherent because farmers, as pricetakers, are totally subject to forces beyond their influence; they take what is given to them. The question is whether American farmers are getting what is coming to them. The only competitor of the market is Government. As we are all painfully aware, the market has come in a distant second in recent years. Improving the competitive position of the market rather than reducing the price stability and income protection afforded to farmers through farm programs by lowering loan rates and target prices, must be our first and most vigorously pursued option. After all, the effectiveness of the current program or any proposed farm program can only be measured relative to the standard of a truly competitive marketplace.

I again extend my welcome and thanks to today's witnesses.

I will now defer to my distinguished colleague from South Dakota, Senator Abdnor.

OPENING STATEMENT OF SENATOR ABDNOR

Senator ABDNOR. Thank you, Mr. Chairman.

I certainly want to commend you for calling this hearing. While I had some problems rearranging my schedule, this is so important that I made the necessary changes. I think this is one of the most important hearings we have held for a long, long time. Unfortunately, I may still have to leave a little early.

I, too, am happy to see our witnesses today. Mr. Steadman has appeared before our subcommittee at 1 of those 30 hearings that you mentioned. I am going to be very brief.

Like I said, I would not have missed this opportunity for anything in the world. I would suspect that perhaps millions of farmers in this country have dreamed of the chance to question and challenge the Chicago Board of Trade (CBT), the Minneapolis Grain Exchange, or any of the other commodity markets for that matter. These commodity exchanges are generally perceived by farmers as the great black boxes and the Bermuda Triangles of agriculture. What goes on in that wonderland remains one of the greatest mysteries of our time.

The commonly held result of the incantations that take place at these exchanges however is that never have so few done so little to make so much off of so many.

Generations of farmers have been raised on the prairie philosophy of "praise the Lord and curse the CBT."

I sincerely hope today's hearing will bring the Chicago Board of Trade and its bretheren into the age of enlightenment. I join the chairman in welcoming the witnesses. The testimony we are about to hear is of extreme importance and I look forward to our discussion with the witnesses.

It is really great to see Mr. Steadman here again. He did a wonderful job in front of our committee and I know he is going to have some very worthwhile testimony to present, and I look forward to the whole lineup of witnesses we have.

Thank you, very much.

Senator JEPSEN. Thank you, Senator.

Today we will have in the following order these witnesses: Chase Econometrics, the Iowa Soybean Association, the Iowa Corn Growers, the U.S. Department of Agriculture, the Commodity Futures Trading Commission, and the Chicago Board of Trade.

At this time I would like to welcome Allen Shiau and Dennis Steadman; is that correct?

Mr. STEADMAN. Yes.

Senator JEPSEN. All right. Your written statement will be entered into the record as if read, and therefore, you may proceed any way you so desire, summarizing or whatever. You may proceed.

JOINT STATEMENT OF DENNIS F. STEADMAN, ECONOMIST, CHASE ECONOMETRICS, AND ALLEN SHIAU, ECONOMIST, CHASE ECONOMETRICS, BALA CYNWYD, PA.

Mr. STEADMAN. Thank you, Mr. Chairman. Thank you, Senator Abdnor. It is indeed an honor to appear before this committee again and to perhaps contribute to shedding some light on the topic at hand, and that is the behavior of the commodities markets during this 1983–84 market year.

To recap very briefly some of the things that Chairman Jepsen has already said, that with the very tiny acreage basis which was in existence during 1983 and with the onslaught of the 1983 drought, commodity prices skyrocketed upward and price expectations became very high.

Senator JEPSEN. Excuse me. Can you hear him in the back of the room?

[Whereupon, there was a chorus of noes.]

Senator JEPSEN. I can hardly hear you at all, and I would guess that no one back there can and it has been reaffirmed, also.

Mr. STEADMAN. I will move up the mouthpiece.

With the small acreage basis that was in existence in 1983 and with the onslaught of the drought, commodity prices increased dramatically. And in October, as the chairman had cited, price expectations for 1983 and 1984 were very, very high.

Senator JEPSEN. Can everyone hear in back? We can turn up the volume.

Mr. STEADMAN. Thank you.

As of October with most of the impact of the 1983 drought already captured in USDA estimates, USDA has projected a season

average price of corn between $3.40 per bushel and $3.80 per bushel, and a season average price of soybeans at $8.50 per bushel to $9.50 per bushel. Our firm in that same month in October had projected corn prices at $3.47 at the farm level for a season average and $8.71 for soybeans at a season average.

Thus far in the 1983–84 marketing years, as we all know, corn prices at the farm level have averaged $3.15 per bushel while soybeans have averaged $7.92 per bushel, far below the previous expectations.

As this hearing is being held to perhaps gain a clear understanding of the activities of the commodities markets, we see the questions of this disappointment essentially covering three areas.

First, the fundamental economic factors that influence these markets have not transpired and developed as was expected. That is first a potential source for discrepancy.

The second is the soft science of economics, and even at the fundamentals we have all anticipated prices that were still a disappointment. And the third potential source of error would be that the market has not yet recognized or is ignoring these fundamental factors.

So what we would like to do is in a very summary sense recap the major fundamental factors influencing the corn and soybean markets to put these in a clearer light. And as we said, to put some meaning into what has happended and to get to that end result so that it is not temporarily in a black box.

Grain prices very fundamentally are determined by the supply and demand conditions in the market as well as expected supply and demand conditions. Again, in this summary sense, the determination of current supply, the major influencing factors, were not only the 1983–84 U.S. production, but also the 1983–84 non-U.S. production of these commodities.

Current demand conditions would be captured by looking at the economic condition of the U.S. livestock industry, supplies of competing products and wheat in this particular case, and the value of the U.S. dollar that has influenced the export of our commodities, and the economic health of the major grain importers.

Those would be the major considerations in the current supply/demand situation. We also have to take into account expected supply and demand conditions for the 1984–85 marketing year. Those include the acreage programs that may or may not exist, and therefore, the expected production as well as the expected demand conditions in primarily looking at once again U.S. livestock and the value of the U.S. dollar.

Now, as we try to distill these various fundamental economic factors together to explain corn and soybean prices, it is indeed complex and there are no precise answers. But we feel that by properly applying economic factors to these marketplaces, we can indeed shed some light on the activity today.

To pursue this in a quantified manner, I am going to turn to my colleague, Mr. Allen Shiau, to present an analysis of these 1983–84 fundamental factors. In following that analysis, then I will turn to look at the outside for the 1984–85 marketing years as well.

If that pleases the committee, I will turn this over to Allen Shiau.

Mr. SHIAU. Thank you, Mr. Steadman. Thank you, Mr. Chairman and Senator Abdnor for the opportunity to present the analysis of the 1983-84——

Senator JEPSEN. I am sorry. You are going to have to force yourself to speak louder because we cannot hear you.

Mr. SHIAU. OK. I will show you the balance sheets for 1983-84. I will turn to the most recent USDA production estimates and our own domestic assumption in estimate, which shows somewhere around 600 million bushels. That will equal 9 percent of use; 600 million bushels may have meant ample stock during the 1950's, but they are very tight for the current years. In order to measure how tight the stock is, we use a statistic for stock-to-use ratio and it is ratio according to our most recent estimates which will be somewhere around 9 percent.

Historically when stock ratio dropped, the prices were increased. This chart shows you the relationship between real corn prices and the stock ratio, and from this month it currently shows the relationship between stocks and prices. If stock ratio drops, the real corn price will increase. If 9 percent were projected, that means the real corn price should be somewhere around 9. In terms of nominal price it should be somewhere around $4.20. But if we look at the prices during October to December, it only averages $3.21.

By using this chart and a seasonal pattern during the drought years such as 1974 and 1980, the stock ratio of 9 percent will suggest that the nominal corn prices for October to December should be $4.73. There is a discrepancy of $1.50. And my task today is to explain why there is a discrepancy of $1.50.

As Dennis Steadman just mentioned, the prices given to us are not only by the current stock demand condition but also by the expected supply and demand condition. Within the next 10 minutes, I will go over each category and shed some light on what is going on in the current markets. In terms of the current supply, production was cut almost 15 percent. However, the first recorded factors in the main condition is that there are two important factors, grain consumption as well as grain prices. The prices will influence the program as well as the ability of livestock producers to pay for their programs. From this chart it shows that the grain consuming animal unit, which is an aggregate of the total numbers has been at a relative low.

If we use 1973 as a basis, why use 1973? Because the 1973 stock ratio was close to 9 percent, we can anticipate that they should follow the 1973 pattern. So I will compare with 1973. The animal numbers given for 1983 are about 4 or 5 percent below 1973.

However, one of the important factors in our stock is the cattle. The cattle prices increased 29 percent 2 years in a row during 1978-79. Since then, the cattle prices fluctuate around $68. This sluggishness in the cattle prices are due first to the weakened consumer demand. Second, to the changing consumer preference. Third, in expansion in the poultry market, and lastly due to the increase in marketing costs as marketing costs equals the farmers' share of the retail dollars. So if we translate these relative flat cattle prices, that means that the prices have been on the downward trend since 1978. That has some impact on the prices because that means farmers are not able to pay for their grains.

Now, one other main condition is the substitution of the feed grain which is wheat. According to our adaption, the wheat stock to use ratio will be somewhere around 51 percent. That is quite a lot of wheat out there. And with wheat prices relatively low, cattle producers and poultry producers will substitute some of it by using wheat in their feedings. The only positive factor in terms of corn prices is the U.S. inventory for use ratio, a soybean to use ratio is very tight. It is about 10 percent. So it is really tight.

However, to summarize the domestic demand for corn, how about export demand? There are two important factors in export demand. One is the economic health of the importers. Second is the value of the U.S. dollar.

If the value of the U.S. dollar appreciates much more than the domestic rate, that is still on a very expensive feed grain for foreign buyers. The expected decline in the value of the U.S. dollar may deteriorize in late September and early October. By mid-October it will reverse its trend. The value of the dollar appreciates substantially.

Now, with this chart I show you the value of the U.S. dollar weighted by the corn trade. Now, look at the 1982 crop year. It averaged about 1.7. That means it cost foreign buyers 71 percent more. And since late or mid to late October, the down continued to appreciate and we expect the trade weighted value of the dollar will average about $2.24. That is compared with about $1.73 in 1982. That is a substantial appreciation. That means it will cost the foreign buyers a lot of money.

Let me summarize, then, the difference between the current years demand condition and the demand condition back in 1973. We know the use ratio is going to be as tight as 1973. However, the grain consuming animal units realizes our prices are the major ability of the farmers to pay, 27 percent. And in wheat stock the use ratio increases from 17 percent during 1973 to 51 percent. And all of those three are clearly negative factors impacting on corn prices.

The soybean stock use of 10.4 is the positive factor in short of corn prices.

Now, corn trade weighted value of the dollar with 1973–74 being used as a basis was 100, and in 1983–84 is almost 200, almost two times higher than way back in 1973–74. How about the demand condition? I can expect the expected demand in expected supply condition because the expected demand condition and expected supply condition will influence the futures market and consequently influence the current prices.

During 1973–74 we had delayed planting and during the growing season there was a drought. At that time the market anticipated about a 700-million bushel drop in production. Now, how about the current market condition? Since the announcement—even per the announcement of the 1984 corn program, we know that the rate will be low because the program will be relatively unattractive to farmers. That means that the market will anticipate a 20-million acre increase in prices. And assuming that no more growing season, no more weather conditions, that translates into 4-billion bushels of corn. That probably will be the first time in history that

the market is so sure that production for the next crop year is going to increase.

Now, if production increases, that will increase the futures prices as well as the stock price.

Now, we know that expected supply is going to be huge. How about demand condition? Domestic livestock during 1973–74—there was a shortage. The market was relatively bullish because prices were really strong. But the current condition is relatively weak, even though we expect some improvement of cattle prices during the second half of 1984. But compared with 1973–74 we are relatively bearish.

FOREIGN DEMAND

The interest rate in the State remains high. Consequently, the value of the dollar will remain high. That suggests a relative weakness in the export demand. So in the foreign demand factors, we are relatively bearish. Now, if we combine all of those factors, the current supply and demand conditions and expected supply and demand conditions, feed it into a computer to see how fundamental factors adjust in terms of current corn prices, by using these fundamental factors, in particular it is expected demand condition and expected supply condition. That will suggest the corn price, the farm corn price of $3.04 a bushel.

And you might compare it with the actual corn price up to December plus the futures prices that will suggest an average of $3.01 a bushel. And statistically those two prices are not much different.

And in terms of economics, what is going on? Why is it so weak? This will show you why. In 1983 we can see it is as tight as 1973. But the demand condition, particularly expected demand during 1983, that is substantially lower than 1973. Consequently, the prices were dropped from $2.27 to $1.41 or a nominal charge of $3.04.

Now, what is wrong? Why do most market analysts expect a much higher corn price, around $3.40, $3.50? Why? Because as I mentioned, the value of the dollar has been appreciating since that time. If the value of the dollar remains at the 1982–83 level—let me put it another way. If the value of the dollar did not appreciate further, that will mean a corn farm price of $3.59. So the appreciation of the dollar costs the corn farmers roughly about $0.55.

One more important factor as I already mentioned is the expected supply. Right now I would think that most market analysts expect somewhere around 8 billion bushels of corn. But should the market's expectation for the next corn crop drop to 7 billion, that will mean an increase of about $0.24. That will average about $3.28.

So let me summarize what is going on since October. I will say two key factors: One, the value of the dollar is going to appreciate; and two, the expectation of the net crop. Market analysts are almost sure that the corn planting will increase 20 million acres. And if you want to ask what is going on with the value of the dollar, it continues to appreciate. I will thank three key factors. One is the relative high interest rate in the State. The second is the political unrest, so the dollar becomes a very firm currency

hold. The third is that there is a certainty in the national financial market.

For the soybean sectors, the value of the dollar—this is the weighted value of the dollar for soybeans, you can see the same factor there. So the value of the dollar and expected increase in production have limited the price growth for soybean sectors as well.

After this I will turn to my colleague, Mr. Steadman, and he will improvise the 1984-85 market for you. Thank you.

Mr. STEADMAN. Thank you, Allen. As we combine those fundamental factors, you can see that with the expectations of a much higher price in the corn marketing year——

Senator JEPSEN. If I may, if we could, I would like to ask a couple of questions before we get into forecasts.

Let me get this straight. How much would the value of the dollar have to go down to get $4 corn, did you say?

Mr. SHIAU. By using 1971, the value of the dollar has to go down 1.4 in order to get $4 corn.

Senator JEPSEN. What is it now?

Mr. SHIAU. Now it is about $2.

Senator JEPSEN. You are expecting it to go to $2.04, you said?

Mr. SHIAU. Yes, for the crop year average.

Senator JEPSEN. So is the logic, then, that high interest rates draw money into the country and this in turn gives increased value of the dollar, the value of the dollar goes up and the price of the feed grains will go down?

Mr. SHIAU. Yes, because as the value of the dollar increases, that translates into a higher price for the foreign buyers. Economically that means that will influence the foreign demand. If foreign demand increases, the corn prices will drop.

Senator JEPSEN. Two primary objectives of the farm programs are to stabilize farm commodity prices and enhance farm income. Now, I understand that the price of the commodity is influenced by different things. Right now you have addressed the value of the dollar. Is that the most important factor dealing with the price today of soybeans and corn?

Mr. SHIAU. In terms of relative importance, the stock to use ratio is a factor. That is why prices are still relatively high as compared with last year's crop. But because of substantial appreciation in the dollar, not limiting the price increase——

Senator JEPSEN. Let me back up a minute. Are you saying that the supply of the stocks is more important than the value of the dollar?

Mr. SHIAU. Yes, historically.

Senator JEPSEN. Is that the most important?

Mr. SHIAU. Yes.

Senator JEPSEN. I see. So it is a fact that we have less supply than we have ever had for a long time. Yet the price of grain continues to go down. It should be going up, should it not?

Mr. SHIAU. Yes. The price is $3.04 which is higher than last year's crop but is lower than 1973 or lower than the expectation and that is mainly because of substantial appreciation in the dollar.

Senator JEPSEN. The most important factor affecting the price of grain, as I understood you to say, is the supply available?

Mr. SHIAU. Right.

Senator JEPSEN. Then the supply that we have available now which is less than we have had for some time—is that a correct statement—is not having the projected affect on prices as it has had in the past.

I take it that, in your opinion it is the second factor which is depressing prices and that factor is the value of the dollar? Is that the second most important thing?

Mr. SHIAU. Yes, it is. If I want to list the relative importance influencing the corn prices, first is the stock to use ratio of corn. Second is the value of the dollar. Third is the expectation of next crop year's production.

Senator JEPSEN. Other than current supplies, the two things that determine the price of a bushel of grain of most importance is the value of the dollar and the expectation of what we believe next year's supply is going to be?

Mr. SHIAU. That is correct.

Senator ABDNOR. Let met ask something. Since the questioning started my curiosity has been aroused.

You showed the chart with respect to wheat. While countries in Europe may not have an abundance of corn, they have plenty of wheat. Anyone that can buy a commodity for 25 percent less will do so. This can have a big impact on this country, especially since this country depends on the export market for one-third or 40 percent of what we produce? Because of the oyervalued dollar, is there any danger that other wheat producing countries of the world would bring wheat in here? They do it on cattle.

Mr. SHIAU. Yes. I agree with you. We might complain that corn prices are too low, but we need to translate it in U.S. corn prices to Japanese yen, translate it to any other major important currency. That is a substantial increase. And for the livestock users that is a substantial financial opponent.

I do agree with you. The corn value of the dollar is really decreasing the foreign demand for U.S. grain because we have to look at how to sell the corn. Look at the importance, how much they can afford to pay U.S. grain if the dollar continues to appreciate.

Senator ABDNOR. Thank you.

Mr. SHIAU. Thank you.

Mr. STEADMAN. To follow up on that, even though there has been a dramatic increase as a result of the 1983 drought, in terms of prices to the U.S. growers they do not get as much as a return from the program, as much response from it as historically has been the case. Until the demand situation strengthens, we will be disappointed in what type of price responses we get to its suppliers from programs.

Senator JEPSEN. Are you saying PIK was a waste of money?

Mr. STEADMAN. I am not going to make a judgment as to whether PIK was a waste of money, but what we are saying is PIK would have resulted in much higher prices if the underlying demand for feed grains would have been stronger, if the U.S. dollar was bigger and if the U.S. economy was stronger. Part of the problem with the livestock center is the prolonged recession in the United States.

That has to have a lingering effect on man for feed grains with livestock centers. So PIK in a healthier demand environment would have resulted in much more return that it did.

With those considerations identified for 1983 and 1984, let us take a look at what is suggested for the 1984–85 marketing year. As Allan pointed out, in 1983–84 we are ending the year with an inventory of only 609 million bushels. If we translate that into 1984–85 marketing year, that is very low. However, reduction is going to expand dramatically.

The major source of expansion and one of the reasons why this expansion is so important is that acreage is certain to bounce back in 1984. We are projecting 83.34 million acres more and the point is the expansion is very rapid. If we are assuming in 1984, as we must, relatively normal growing conditions since we do not know what the weather will be like next summer, we can expect a crop of 8 billion bushels.

As a result of that expansion and the near doubling of our production, supplies will expand as well but by a smaller percentage, of course. So, 1984 is going to be a year of growing supplies. But we will not be back to the type of excess total supplies that we were in setting the stage in the 1982 marketing year, and that needs to be pointed out.

On the demand side for the 1984–85 marketing year, we are being more optimistic as a result of some of the most recent developments. We do expect domestic use for feed grains to expand in 1984–85. This is a result of several factors lower prices being one of those.

Also, the initiation of buildup in the hog and cattle industries which we expect to incur by late 1984. So while during the 1983–84 marketing year, the cattle and hog populations will be relatively weak, for the 1984–85 corn marketing year there are some positive factors there. We expect those to expand through 1985.

As Allan had showed previously with the cattle prices as we look at a downward trend for the last 4 or 5 years, for the next 2 years we do expect a modest upward trend. The direction is at least positive for producers and, therefore, for feed grain consumption. For exports in 1984–85 the demand situation is expected to strengthen. This is also as a result of several factors. One is our projections for the 1984–85 marketing year starting in October of 1984. While the dollar will remain very high by historical standards, we do expect it to fall from 4 to 6 percent. Also, the expectation of foreign economies which will be initiating growth and expanding in the 1984 calendar year and continuing into 1985.

So we are looking for healthier economies overseas, a somewhat weaker dollar and lower prices. Despite the anticipated growth in 1984–85, inventories will expand and we are projecting an expansion up to about 1.2 or 1.3 billion bushels. That is approximately 17 percent of the total utilization, and by historical standards would not necessarily represent a surplus level.

However, if we are looking at the U.S. corn utilization ratio, we can see that once the ratio approaches or exceeds 20 percent, we start to get into a depressed price situation where Government programs to a larger degree set the market price. In 1984 at 17 percent is somewhat short of what would be a traditional definition of

surplus. It is not quite at that level. However, even though it is not at the historical definition of surplus, we do expect the season average farm prices to fall to $2.68 per bushel at the farm. And as you can see, that is only about 13 cents above the loan, and as a result we expect that during the 1984–85 marketing year with those fundamentals that farm prices will fall back to the loan rate.

In real dollars, then, in 1984–85, as you can see, we expect the real price of corn to fall to an historic low of approximately 0.80 with this. In 1984–85 the season average price of corn will be lower than it was in 1981 and 1982 during the record build up in supplies. If we take a quick look at the soybean market in the same context, as Allan pointed out, ending in the 1983–84 marketing year we expect inventories of 10 percent of utilization as it is carried into the 1984 marketing year. We think that will be in addition to a relatively large crop and bring soybean acreage smalls back to approximately 71-million acres and improve to a more normal level.

Thus for the 1984–85 marketing year, we see total prices of about 2.4-billion bushels, and again even with an expected growth in utilization for the same factors that are helping to expand the utilization for feed grains inventories are expected to build up, and as a result that prices will drop to approximately $6.67 a bushel at the farm, which is, as you can see, approximately $1.20 below our current expectations for 1983–84.

I would say, then, in summary as we look ahead to the 1984–85 marketing year, prospects are not bright for grower cash receipts in the crop sector. The prolonged recession in the U.S. economy from late 1979 through 1982 is going to have a lingering effect upon livestock demand. That is combined with a fundamental shift in consumer preferences, which is a long run in gradual phenomenon that agriculture needs to wrestle with. And with that we can demand function. We are not optimistic that we can prevent inventories from once again growing back to very price depressing levels.

The best way perhaps to show one of the problems that the oilseed and feed grain sector has to cope with, without an economy that remains to keep the total meat consumption to expand, the grain and oilseed markets will have a relatively flat demand schedule.

Thank you, very much. That concludes our anticipated presentation. I will be happy to address further questions.

Senator JEPSEN. The factors as Mr. Shiau was talking about, most are due to prices, supply, value of the dollar, and expected crops because all these will have their impact for the next couple of years and the prices are going to go down, is that what you are saying?

Mr. STEADMAN. To some degree. The importance of the value of the dollar is certainly paramount and I think the point in these areas is that it has been more important in 1983–84 marketing year, in particular because of the sharp runup that the dollar has made. And that we do not see that dollar reversing itself in a major way in the next 1 to 1½ years.

The underlying fundamentals are very weak and more importantly in the longer term is the lack of growth and consumer consumption of meats.

Senator ABDNOR. Let me ask Mr. Steadman one thing. The picture is not very bright. We are not exactly having a prosperous time in agriculture and on our farms today. Is there any kind of a program that could be devised to help this situation short of putting more money in the farm program this year? Do you think it is possible to come up with a program that could improve this situation?

Mr. STEADMAN. I do not think it is impossible to improve it. I think the dilemma that farm policymakers find themselves in that their farm policy which is geared toward supporting farming and commodity prices is sometimes frustrated by these larger fundamental considerations such as the general health of the U.S. economy, the general health of the world economy, the value of the dollar. It is again an example that we have cited before where farm policy goals can be overrun by policies in economic conditions outside of the realm or the control of agriculture or any policymakers sometimes. That is part of the trust situation.

Senator ABDNOR. OK.

Mr. STEADMAN. Thank you, very much.

Senator JEPSEN. Would you please explain the relationship between futures prices and cash prices? That is, do futures prices determine cash prices?

Mr. STEADMAN. That is a yes and no. It goes both ways. Allen hit on some of that in his estimate.

Mr. SHIAU. In terms of economics, the futures prices and cash prices are simultaneously determined. What I mean is the current demand condition will influence the cash price. If you use the normal basis, that should also influence the futures price. And the other way around, the expected demand and expected supply condition will influence the futures price. And if we subtract the basis again, that will influence the cash price. So both are really together most of the time in history.

Senator JEPSEN. What is the average total cost of production of corn that you used in your computation?

Mr. STEADMAN. For corn in the 1984–85 marketing year, we projected a variable cost of approximately $1.70. The total cost excluding land of about $2.60 to $2.70. So we are looking at a cost of production excluding land in 1984–85 to approximately equal the average farm price. If we add land into that, I think the total cost goes to about $3.25.

Senator JEPSEN. What is it without the land?

Mr. STEADMAN. $2.65, nearly equal to our projected price.

Senator JEPSEN. Could you briefly explain what the main ingredients or factors are that bring you to this cost of production figure?

Mr. STEADMAN. One of the key considerations in this is the fertilizer price which with the acreage cut back that we had in 1982 and the tremendous acreage cut back in 1983, fertilizer demand was very low. With the expectations that corn acreage is rebounding back, fertilizer prices have responded accordingly and have increased sharply in the last 4 or 5 months. And we expect fertilizer prices to remain relatively strong. That is one of the key considerations.

Also, seed prices will be expensive this season as seed supplies were affected in the same way. General rates of inflation across the

board for the farmer, as you had cited in your opening comments, are working pretty strongly and are expected to be below 1983 simply because of improved yields. Costs per bushel in 1983 were even higher because the yields per acre were lower.

Senator JEPSEN. Do you have any specific suggestions as to how we could get that 75 cents back? You mentioned you adjusted your 1983–84 corn price to $4 a bushel to $3.28 a bushel, is that correct?

Mr. STEADMAN. Our projections were $3.47 back in October. It is now at $3.14. So we have adjusted it.

Senator JEPSEN. You were never at $4 a bushel?

Mr. STEADMAN. The $4 production is to say if all we considered was the supply condition, if all we considered was the stock use ratio, by historical standards that would be the price of corn, $4.

However, that is a first approach looking at just supply. Once we impose demand upon that, we are then looking at $3.14.

Senator JEPSEN. What has to be done to get that roughly 85 cents back from your original $4 projection?

Mr. STEADMAN. Well, to get that back, as Allen pointed out, the value of the dollar goes from 2.2 to 1.4.

Senator JEPSEN. How do you do that?

Mr. STEADMAN. I do not know, sir. The stabilization and equalization of interest rates in the United States versus foreign currency is the premium that U.S. interest rates have held over other interest rates in other countries which is very much behind the strength in the dollar as well as the speed of the U.S. recovery. These would be the weakest.

Senator JEPSEN. What does Chase Econometrics believe to be the single greatest contributor to the persistent high interest rates? Compared to the rate of inflation, interest rates are at about 2½ times. If we had interest rates compared to the rate of inflation, as in history past, we would have something in the neighborhood of 6- or 7-percent interest rates. Instead, they are 13, 14, with an 11-percent prime rate. What do we have to do to get that interest rate back to where it historically has been relative to inflation?

Mr. STEADMAN. Well, I would say that economists would cite the No. 1 reason as being the large Federal deficit. That has helped to maintain historically a very high level.

Senator JEPSEN. That is the singlemost important factor?

Mr. STEADMAN. If we had to prioritize, yes.

Senator ABDNOR. Only this: Your projections to me are bad news. I am sure they are absolutely correct. Are we going to have closings of farms in this next year? Can they absorb a year like this? What will 1984 do to the farmers? Will they be able to hang on?

Mr. STEADMAN. Well, I think they will hang on. We do not expect it to necessarily look as bad as it was in 1982, 1983. There are some glimmers of hope. When we get into 1984–85, we do expect some compromise of improvement. It is real farm purchasing power which obviously took a very sharp turn in the early 1970's with commodity shortages, but that has continued to decline since 1984. As you can see, prospects for 1984–85 call for cash receipts, purchasing power in real terms to continue to fall. So, yes, it is a very weak period for U.S. farmers. It is a period that may be a period of wash out, if you will. We seem to have a fundamental excess capacity to produce wheat in this country and we seem to have a consid-

erable excess perhaps in feed grain sectors as well. We did have droughts that sometimes contribute to reducing that excess, but our capacity to produce exceeds the current underlying demand. And all of that is highlighted by the shift in the meat consumption and U.S. highs.

Senator ABDNOR. Well, I am realistic so I do not want to sound like a dreamer here. But I am sure Congress is not going to pick up the deficit with any great meaning this year to do anything revolutionary in trying to bring it downward. But if we would by some chance—let us say we found a way between raising taxes and spending cuts so that we could knock $50 billion off that deficit, I personally believe that it could almost simultaneously take 1 or 2 percent off interest rates. And if that is the case, we could slow down the outside dollars coming in here and probably make our dollar value drop some.

Mr. STEADMAN. Yes, it certainly would. And I should point out as well that projections for the U.S. dollar called for it to weaken within the next 6 months and over the next 12. So we do expect the dollar to head in the right direction, but it is starting from a very high plateau.

That weakness is a function of more rapid recoveries and the slow down in U.S. recoveries as well. There is some hope there and also statements by our foreign exchange economists that the value of the U.S. dollar currently is perhaps higher than what pure fundamentalists imply and we may get a correction in and of itself just from that factor. So maybe we are wrong on our value of the dollar by dropping by 5 or 6 percent. Hopefully we are.

Senator JEPSEN. Well, I thank you. In closing, let us try to put some perspective in your projections as to the price of grain and what it was going to be based on—current supply levels. You have adjusted your projections, correct?

Mr. STEADMAN. That is right.

Senator JEPSEN. And you may make adjustments in your 1984–85 projections?

Mr. STEADMAN. I expect that will change every month between now and then, that is right. That is why we forecast often.

Senator JEPSEN. I do not think it is solely your projections. I find economists to be very flexible. I think your flexibility is shown here by your recent projections. Like some of the Government projections, our deficits have increased rather dramatically in the last 90 days or so. I don't see interest rates going down. But a 1-percent decrease in unemployment takes $20 billion off the deficit. A 1-percent improvement in the gross national product takes $20 billion off the deficit. We have had some very dramatic things occur in the last 4 or 5 months, but interest rates are holding. I would suggest maybe when the people of this country believe that something is stable, that interest rates will drop rather dramatically. Once they believe, regardless of where the deficits are at, the deficit would drop $100 billion. If the people of this country do not believe, they are not going to drop. Do you agree with that?

Mr. STEADMAN. 100 percent. You are setting a good example of how the expectations have to be there.

Senator JEPSEN. Thank you, very much.

Mr. STEADMAN. Thank you.

[The joint prepared statement of Mr. Steadman and Mr. Shiau follows:]

JOINT PREPARED STATEMENT OF DENNIS F. STEADMAN AND ALLEN SHIAU

I. INTRODUCTION

Following the near-final 1983 crop production report issued by the USDA in October, agricultural analysts, including the USDA and ourselves, projected 1983/84 season average prices of corn and soybeans to be in the $3.40/bu to $3.80/bu and $8.50/bu to $9.50/bu ranges, respectively. The Chase Econometrics October price projections were $3.47/bu for corn and $8.71/bu for soybeans. Thus far in the 1983/84 marketing years,[1] corn prices have averaged $3.15/bu at the farm level and soybeans prices have averaged $7.92/bu. While these averages are approximately 50% above the year-earlier levels, they are markedly below previous expectations.

This hearing is being conducted to seek answers to the question of why actual market prices to date have fallen short of expectations. In its most general sense, the deviation between expectations and actual prices could be the result of three situations. First, the fundamental economic factors which determine market prices have not developed as anticipated. Second, given accurate expectations of the determinant fundamental economic factors, the soft-science of economic analysis used to combine and distill these factors into predicted prices could be in error. Or third, the market for some unknown reason has either not yet recognized the fundamental factors or is ignoring them. The role of Chase Econometrics here today is to address the first source of discrepancy--what do the actual fundamental economic factors suggest market prices ought to be. Finally, the outlook for 1984/85 will be presented.

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[1] October through December 1983 for corn and September through December 1983 for soybeans.

II. FUNDAMENTAL ECONOMIC FACTORS AFFECTING GRAIN PRICES

Grain prices are determined by not only current supply/demand conditions, but also expected supply/demand conditions. Those key factors include:

Current Supply Conditions

- 1983/84 U.S. production
- 1983/84 Non-U.S. production

Current Demand Conditions

- The economic condition of the U.S. livestock industry
- Supplies of competing products
- The value of the U.S. dollar
- Economic health of grain importers

Expected Supply Conditions

- 1984/85 farm programs
- 1984/85 plantings

Expected Demand Conditions

- The value of the U.S. dollar

III. ANALYSIS OF 1983/84 FUNDAMENTAL FACTORS

Detailed, quantitative analysis of the key fundamental economic factors active in both the corn and soybean markets has been conducted. As a preliminary approach, the inventory-to-utilization ratio is studied to provide a suggested price. In the case of corn, for example, the 1983/84 inventory-to-utilization ratio is expected to fall to approximately 9%, the lowest level since 1975/76. Based upon history, this ratio suggests a season average farm price of corn of $4.20/bu. However, many of the above factors need to be introduced to the analysis.

To provide a better insight into the 1983/84 market condition, we use 1973/74 supply/demand conditions as a basis to analyze the corn market. The analysis is summarized in Tables III.1 and III.2.

Table III.1
Current Supply/Demand Conditions
1973/74 vs 1983/84

	1973/74	1983/84	Impact on Corn Prices
Current Supply Conditions			
Corn Stock/Use, %	8.2	9.0	
Current Demand Conditions			
Grain Consuming Animal Units, 1973/74=100	100.0	95.9	-
Real Livestock Farm Prices, 1973/74=100	100.0	73.2	-
Wheat Stock/Use, %	17.3	51.0	-
Soybeans Stock/Use, %	12.6	10.4	+
Corn Trade Weighted Value of Dollar, 1973/74=100	100	198.9	-

Table III.2
Expected Supply/Demand Conditions
1973/74 vs 1983/84

	1973/74	1983/84	Impact on Corn Prices
Expected Supply Conditions			
Corn Production, mil bu	-678 Delayed Planting and Drought During Growing Season	+3900 Substantial Increase in Planting	-
Expected Demand Conditions			
Domestic Livestock Sector	Relative Bullish	Relative Bearish	-
Foreign Demand	Relative Bullish	Relative Bearish	-

The econometric model projection which incorporates both current and expected supplv/demand conditions calls for $3.04/bu season average farm prices for 1983/84. The actual farm prices to date, plus futures prices as of January 19, 1984 suggests a season average price of $3.01/bu. This price level is not statistically different from the one projected by the econometric model. Thus, we conclude that futures prices do reflect fundamental economic factors. The increase in the value of the dollar, expected large 1984 plantings, combined with excessive wheat stocks are factors limiting the growth of 1983/84 corn prices. By the same token, a persistent high value of the dollar and expected increases in 1984/85 grain production have put downward price pressure on soybean markets.

IV. OUTLOOK FOR 1984/85 MARKETING YEAR

The 1984 feed grain acreage program is quite weak and is expected to idle only 0.5 to 2.0 million acres of corn, compared to 23 million acres idled in 1983. As a result of reduced government idling and higher grower-level corn prices, corn acreage is expected to expand to 82.5 to 83.5 million in 1984. Assuming more normal growing conditions during 1984 likely U.S. average corn yields will be 107 to 111 bushels per acre. Thus, we currently project the 1984 corn crop to recover to 7.8 billion to 8.2 billion bushels, up 85% to 95% from 1983, **Table IV.1.** Because of expected tight beginning inventories, however, total 1984/85 marketing year supplies at 8.3 billion to 9.0 billion bushels will be 13% to 23% above the current 1983/84 marketing year level.

The demand prospects for the 1984/85 marketing year are favorable. Domestically, U.S. hog and cattle industries are expected to initiate some herd expansions by late calendar year 1984 that should continue through 1985. With consumer meat supplies still somewhat low during late 1984 and early 1985, and continued gains in real consumer income levels, livestock prices are expected to hold up quite well.

Foreign demand for U.S. corn is expected to expand in 1984/85 for the first time in three years. Lower U.S. prices, economic recoveries in major industrialized nations, and a moderating foreign currency value of the U.S. dollar all point to increased U.S. corn exports relative to the recession impacted levels of the 1981/82 to 1983/84 period. Real output in all OECD countries outside the United States is expected to grow at a 2.5% to 2.8% rate during 1984 and 1985 compared to 1982 and 1983 growth rates of 0.7% and 1.3%, respectively, **Table IV.2.** The value of the U.S. dollar is expected to decline in foreign currency markets during the next two years as economic recoveries overseas take hold and the U.S. recovery slows from 1983 levels. On a U.S. corn trade-weighed basis, the value of the U.S. dollar during the 1984/85 market year is expected to average approximately 5% below the 1983/84 level.

Table IV.1
U.S. Corn Supply/Disappearance
1981/82 - 1984/85[a]

	1980	1981	1982	1983[b]	1984[b]
			- - - - - - - million bushels - - - - - - -		
Total Carry-in	1618	1034	2286	3140	609
Production	6645	8202	8397	4204	8054
Supply	8263	9236	10683	7344	8663
Domestic Use	4874	4984	5674	4900	5305
Exports	2355	1967	1870	1835	2085
Disappearance	7229	6951	7544	6735	7390
Total Carry-Out	1034	2286	3140	609	1273
Total Stock/Use, %	14.3	32.9	41.6	9.0	17.2
Season Average Farm Price $/bu	3.10	2.44	2.70	3.14	2.68
Acreage Planted, mil	84.05	84.16	81.91	60.13	83.34
Acreage Harvested, mil	73.03	74.70	73.15	51.54	73.89
Yield, bu/ac	91.0	109.8	114.8	81.6	109.0

[a] Marketing year beginning October 1 of year denoted
[b] CE projections

1/84

Table IV.2
OECD Gross National Product,
Billions of 1975 U.S. Dollars, 1982 to 1985

	1982	1983	1984*	1985*
Europe	2,017	2,028	2,061	2,108
% Change	0.6	0.6	1.6	2.3
Japan	683	707	738	765
% Change	2.9	3.4	4.5	3.6
Canada, Australia, and New Zealand	304	309	322	332
% Change	-3.1	1.6	4.2	3.1
Total OECD Less U.S.	3,004	3,043	3,121	3,205
% Change	0.7	1.3	2.6	2.7
United States	1,868	1,929	2,018	2,085
% Change	-1.9	3.3	4.6	3.3
Total OECD	4,878	4,972	5,139	5,290
% Change	-0.3	1.9	3.4	2.9

*Chase Econometrics Projections

Total 1984/85 disappearance of U.S. corn is thus projected to reach 7.34 billion to 7.44 billion bushels, up 10% from 1983/84, Table IV.1. Despite the higher consumption level, inventories are expected to rebuild to 1.15 billion to 1.35 billion bushels. This buildup in inventories at a time of still relatively high values of the U.S. dollar and low livestock prices could force corn prices down to loan rate levels of $2.55/bu. The 1984/85 season average farm price is projected to average $2.55 to $2.75/bu.

Partially as a result of higher 1983/84 soybean prices as well as the diluted 1984 acreage programs, U.S. soybean acreage is forecast to rise to approximately 71 million acres in 1984. Assuming normal growing conditions, yields are expected to average 31.0 to 32.0 bushels per acre resulting in a 1984 crop of 2.18 billion to 2.25 billion bushels, up approximately 40% from 1983. As is expected to be the case in the corn market, continued economic recovery in the United States and overseas, a weaker U.S. dollar and higher U.S. livestock prices all bode well for growth in 1984/85 soybean consumption, Table IV.3.

The expansion in supplies, however, will more than match the higher consumption levels to rebuild inventories and depress prices in 1984/85. The season average farm price of soybeans is thus projected to average $6.50 to $6.85, 15% to 20% below anticipated 1983/84 levels.

Table IV.3
U.S. Soybean Supply/Disappearance
1980/81 - 1984/85[a]
(million bushels)

	1980	1981	1982	1983[b]	1984[b]
Total Carry-in	359	318	266	387	186
Production	1792	2000	2230	1595	2235
Supply	2151	2318	2496	1982	2421
Domestic Crushing	1019	1030	1108	990	1137
Other Domestic Use	89	93	96	90	93
Exports	724	929	905	716	912
Disappearance	1833	2052	2109	1796	2142
Total Carry-out	318	266	387	186	270
Stock/Use, %	17.3	13.0	18.2	10.4	12.6
Season Average Farm Price, $/bu	7.57	6.05	6.10	7.85	6.67
Acreage Planted, mil	70.04	67.81	71.50	63.34	71.35
Acreage Harvested, mil	67.86	66.37	69.82	62.16	70.28
Yield, bu/ac	26.4	30.2	31.9	25.7	31.8

[a] Marketing year beginning September 1 of year denoted
[b] CE projections

1/84

Senator JEPSEN. At this time I would like to invite Merlyn Groot from the Iowa Soybean Association and Max Naylor of the Iowa Corn Growers.

I thank you for taking time out of your busy schedule to be with us today. Welcome. Your written testimony will be entered into the record as if read. You are testifying on behalf of the Iowa Soybean Association. Welcome and you may proceed

STATEMENT OF MERLYN GROOT, MEMBER, IOWA SOYBEAN ASSOCIATION, MANSON, IOWA

Mr. GROOT. Thank you, Mr. Chairman.

My name is Merlyn Groot and I operate a grain and livestock farm near Manson, Iowa producing soybeans, corn, and beef cattle. I appreciate the opportunity to testify on behalf of the Iowa Soybean Assocation concerning farm commodity markets.

Iowa ranked No. 1 in U.S. soybean production in 1983. Marketing is very important and has a great effect on soybean producer profitability. Traditionally, over half of the U.S. soybean production is sold overseas, contributing over $8 billion to our Nation's economy each year. Because U.S. soybeans comprise the majority of the volume in the international soybean trade, customers overseas depend upon the U.S. market system. Therefore, what takes place in our markets has an effect that goes far beyond our Nation's borders. Open markets have served to allocate resources through comparative advantage and have enabled U.S. soybean production and exports to double since 1970, taking advantage of growing demand for soybean meal and oil. The role of commodity futures trading as an integral part of the soybean marketing system is reflected in a nearly sevenfold increase in the volume of soybean futures contracts traded since 1970.

Futures markets provide a worldwide price reference for buyers and sellers of soybeans, a means of shifting price risks to those willing to bear them, and an efficient mechanism for the forward pricing of soybeans. Maintaining these qualities is essential throughout the marketing chain for farmers, elevators, and customers here and abroad. These sectors depend upon futures markets as an accurate barometer of supply and demand conditions throughout the world. In addition, cash bids at the farmer level are generally determined as a reflection of futures contract quotations, so cash merchandisers are affected by futures prices even if they do not use them as a marketing tool.

A growing concern and much discussion has been generated in recent weeks by fluctuations in soybean futures prices which could not be readily explained by fundamental or technical factors, but rather seemed to occur in conjunction with positions taken in the market by a few large trading concerns. Granted, short-crop years have a history of declining prices shortly after a harvest rally, and a strong dollar, decreased U.S. livestock numbers, and increased wheat feeding have weighted upon the soybean market. However, the incidence of huge futures transactions by a few traders usually at the end of a trading session, causing a rise or fall in prices with no regard to existing market conditions, has drawn a great amount of attention in the soybean farming community. Such price activity

destroys the confidence in the free market system of those who need it most. This has happened on numerous occasions in the past 4 months. I feel the situation warrants investigation into possible trading violations or changes which may be needed in existing laws to preserve the functioning of the futures market for the purpose for which it is intended.

Caution must be taken to avoid making hasty conclusions about current trading practices. It is my judgment at this point that legislated action would not be the best course to follow, but rather a review by people with expertise in this area to insure confidence in futures trading according to its objective as a part of the market system. It is likely that Federal farm programs in the future are going to rely more on marketing and less on Federal Government outlays, so it is essential that users of commodity futures markets have confidence that the objective of futures trading is fulfilled as a part of our access to markets. With that in mind, I am offering two proposals for consideration:

First. The Chicago Board of Trade should include at least one farmer-producer on its board of directors. This should not be regarded as a cure-all, but would provide an opportunity for farmer input and establish two-way communication between the CBT and the farming community.

Second. The Commodity Futures Trading Commission should establish a futures trading practice review committee to:

(a) Review trade volume by group such as hedging buyer, hedging seller, speculator, and managed account trader,

(b) Review changes brought about or needing to be brought about as a result of technological advance, especially as it pertains to computerization of commodities trading,

(c) Review the application of trading rules and regulations to determine if they have been followed and enforced, and

(d) Make recommendations for any changes in rules or enforcement of rules which are deemed necessary to insure the viability of commodity futures markets for the purpose for which they are intended.

This committee could be made up of representatives of the Commodity Futures Trading Commission, Chicago Board of Trade, the grain industry, brokers, and producers and complete its work in its report to the CFTC and appropriate groups for public information.

Thank you again for the opportunity to present these views.

I will be happy to attempt to answer any questions.

Senator JEPSEN. Just a few minutes ago Chase Econometrics predicted a very low participation by farmers in the 1984 supply control program and as a consequence a rebuilding of stocks.

From your observations, do you think they are right?

Mr. GROOT. Well, your area is soybeans as you are aware, and I am not as familiar with soybeans as I am with wheat because this is a different area. I would anticipate that given current price levels and projections which we are going to see more of, and I think the economists will present, I would anticipate that the participation is going to increase as we get toward the end of the year for two reasons. One is as we see what becomes more and more evident, I believe those price levels are probably realistic, that the open market is going to be drifting toward the loan levels.

And second, because of that other graph that they showed on the real farm income. That while we may not see wholesale farmer liquidation, I know in my own operation and I am gearing impressions for many others that the cash supply is still a serious problem and is going to continue to be a serious problem, particularly as long as interest rates stay at their levels. And I would expect that for financial cash supply reasons with their predecessor, namely their bank that the hedgers are going to want their customers to look very hard at this program. Because when a national target of $3.03 on corn as compared to looking at an open price of which may be a harvest low of $2.30 to $2.40 and an average of about $2.60 to $2.70 rates, simply for cash supply reasons I am sure that the hedgers are going to want anybody that they are involved with at any great degree to look very heavily at this program.

And so I think what I would anticipate is a very slow beginning at the signup which started a week ago and that will accelerate and pick up towards the end. Also from the fact that it does not have the options of dropping out like previous programs have. It is more definitely committed and that will tend also to drag the signup toward the end of the period. But I think we are going to see a high participation than what the earlier projections were.

Senator JEPSEN. What I hear you saying is that as we get down to the wire for the signup, the producers are going to take a pencil and read some of these reports and they are going to find that the loan rates and target prices in the program for the small amount required to set aside and become eligible for them is going to be the best insurance policy they might ever have, as a result we may see a big signup rather than a small one? Is that what you are saying?

Mr. GROOT. I guess we could qualify what you call "big," but I would say more than 50 percent.

Senator JEPSEN. I take it that you believe that the soybean prices are more than just a function of economic factors, is that correct or not?

Mr. GROOT. Possibly, yes.

Senator JEPSEN. Well, what evidence do you have or what other factors are there that affect bean prices, especially with regard to the subject here today? Do you have any evidence or charts or reports of any market manipulation in any way?

Mr. GROOT. The information that I tied together when I prepared this testimony is that to the best of my knowledge that I was able to find, there were no violations of the trading rules that have taken place that have been presented so far. Now, maybe there will be some in the future, or at a later date maybe there will be some uncovered. I guess one of the things that I think was the reason for presenting this recommendation of a review was not necessarily that it would involve violations. But I think that we have seen in the last maybe 2 years or so is that maybe simply the market has changed itself.

I guess if I was going to name two things I would probably boil it down to what I suspect might be a large increase in the growth of what we call the managed account type of trading, where accounts are grouped together, somebody handles the account and does the trading for the customers that are involved in that account or several accounts in grouping the trading together. Those groupings

may be sizable enough that reduces the decisionmaking process to very few or one individual. I think that would be a change from what we have seen in the past where it is generally regarded that positions or trades were made by many individuals giving buy or sell orders to their individual broker and not that it would be grouped together in fewer decisions.

So I guess the impressions that I have gotten from talking to people is that it is possible that if we have seen enough growth in the managed account type of trading where the decisionmaking process is reduced to where this reflects itself in futures trading to a point where it causes moves to a point where then those who trade by charts are trading. Then my thing is maybe it is possible simply from the market action itself to get a price change which may not necessarily reflect itself to the fundamental supply and demand figures. I guess maybe there is a combination. And those things would not necessarily indicate that maybe there is anything illegal. But simply a change in the way marketing has changed and so that is why I feel it is justified to have a review to see if, in fact, those changes can be substantiated. And if they can, what needs to be done to adapt it.

Senator JEPSEN. Do you know what the present limit on individual trade is?

Mr. GROOT. The figure of 3 million bushels for each account, as I understand, and that has not changed in some time. I think the 3 million bushel limit, as far as I know, has been the same for some time.

Senator JEPSEN. We will not find out for some time.

Mr. GROOT. Well, the thing is, if you group accounts, it is 3 million for each of those customers that are represented. So like a managed account with five separate accounts, then it is three to each of those he represents, you see. So you get much beyond the 3 million bushel limit because if, as I understand it, a managed account will be representing separate accounts and it is three for each of those separate accounts. Whether there are some limits that apply on grouping. I do not know.

Senator JEPSEN. Would you please explain how hedging is used by farmers as a marketing option, and then comment on how popular it is or how much it is used by farmers.

Mr. GROOT. Well, the second question is a very small percentage. I think the indications are, I would say, 2 to 3 percent. Some of it is a pattern of size, particularly in the case of soybeans where you have a lot of smaller producers like we do in Iowa. Five thousand goes beyond what would be comfortable in hedging. So size has something to do with it. There are the smaller ones.

Farmers not being familiar with hedging, I think, is another reason why it is small, as far as what it is used for. I do not do a lot of hedging. I do some, a small amount. Basically the purpose of hedging is to transfer risk. And that is to set a price, a predeterminated price, that you can set for the commodity that you are trading. And basically that is what I use it for.

Senator JEPSEN. Well, do these radical daily changings in futures prices affect your feelings about hedging?

Mr. GROOT. Yes, it does.

Senator JEPSEN. How does it affect it?

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Mr. GROOT. Well, I guess it does if there is a question of confidence in the market. I had some fear ever since late summer that we could see an early top in the market because we have what we call this short-crop-long-tail theory where in years of short-crop supply, generally the prices often will peak early in the marketing season. And so my feeling was to attempt to look ahead at the 1984 crop because I feared we would get a rebound in production, the demand would not rebound, and we would see the corresponding drop in prices.

My feeling was that it would probably be wise to hedge particularly on feed grains for a good portion of what anticipated production would be. However, if there are questions of confidence in the market, that raises a question. Will the market move truly reflect supply and demand figures? And if it does not, then because of the tight cash flow situation which most of us are facing in agriculture, then you have to wonder whether you would be able to meet the cash flow to meet the margin deposit requirements if it had a move in the wrong direction that it did not really reflect the supply and demand.

So caution on hedging also reflects the level of confidence which is viewed in the market.

Senator JEPSEN. As a producer who is actually farming and as a hedger in one of the commodity fields, the soybean industry, what is your evaluation of the confidence level of producers generally in the board of trade and its activities?

Mr. GROOT. I would say producers as a general rule are not very familiar with it and would not feel very comfortable in doing very much hedging, even though it may be a good idea and often it is a good idea. But I would view the general attitude of the farmers at large to not have enough confidence in their own trading that they would feel comfortable in doing very much of it.

Senator JEPSEN. Who do you go to for advice when you go to make some of these decisions?

Mr. GROOT. Many farmers as well as me do subscribe to marketing advisory services, and I also have a broker who has been a family friend of my father for a number of years. And if and when I do any hedging, I have done it through him. And partially on his advice.

Senator JEPSEN. As one who has had a chance to observe from an international level the whole cycle of soybean planting, growing, harvesting, and marketing, do you feel that your best financial adviser would be the bank?

Mr. GROOT. Yes.

Senator JEPSEN. What do you feel their level of confidence is regarding hedging?

Mr. GROOT. I think you would find the variance also in the banking community to hedging as far as farmers' participation. Locally I would anticipate that they are not involved very much at all in any of their customer's hedging.

Some banks are, however, particularly those that have substantial farm credit business and that would probably be larger banks, also. I think it is increasing. However, I would anticipate the percentage would still not be a majority as far as banks. And some of the feeling reflected particularly in the small rural banks might

not be a whole lot different than you would find among some farmers.

Senator JEPSEN. I notice in your recommendations here that you do not suggest that the Commodity Futures Trading Commission should improve its educational function. I notice you do recommend that you have a farm producer on this board. Would that solve the problem?

Mr. GROOT. As I indicated, I do not think that that should be recorded as a cure-all. I think the communication is needed both ways. I did visit with a director of the Chicago Board of Trade. He feels that the board would benefit from direct producer input. Because there are commodities other than farm commodities that are trading.

Senator JEPSEN. What did he feel was the possibility of a producer being brought to the board? Do they not vote among themselves as to who comes on the board? I am asking the question. I am not sure of the answer. How is a board member brought on? Is it by a vote of the hedgers?

Mr. GROOT. I am not entirely familiar with what their procedures are. It is a vote within their membership. I know they do have a public director which may not be within their organization.

Senator JEPSEN. Well, I did not expect necessarily that you should have the answer. We will get these questions answered. It is worth noting, however, that even you, a person who is nationally recognized and respected as a leader and very much involved in soybean marketing, does not have at his fingertips as to the makeup of the board itself and how one obtains membership.

As I said in my opening remarks, we are trying to get farmers weaned—that is a good farm term—from the Government so that producers can indeed look toward the marketplace and begin to use the financial tools that are available to them. Given your knowledge of hedging and future contracts, do you feel the financial tools available to farmers are advantageous?

Mr. GROOT. If we look back at the last 3 years, there would be times when I feel that it would have. Now, I think hedging must be regarded as part of the overall marketing options. There will be times when maybe hedging is not necessary. I think that to be prudent, also. But I think hedging needs to be maintained in its objective as a marketing alternative that can be used at times to transfer risk. And I will just give you a personal example of what we looked at last fall. I have had some concern for several months about what would happen with commodity grain prices in 1984, particularly toward the end of the year.

Call it greed or whatever you want, but you get caught up in the euphoria of these higher prices than people were looking at. Then the peak was reached and it started down and the tendency is to hang on and you do not react quickly enough. And so as a result I do not have any hedgings for 1984. The indications were there that a hedge in the early or late fall of 1983 or 1984 crop was going to prove to be a good decision, and it would have been. I think it would have been. I think it will prove all year that it would have been a good decision.

But hedging also takes a mental discipline. And sometimes we do not have it.

Senator ABDNOR. It is good to listen to your recommendations. Do you have any others? Are you perfectly comfortable and satisfied that the regulations are operating effectively? Or should we change the amount of the money put down? Do you have any thoughts on that?

Mr. GROOT. I really do not know. But nothing, I guess, is absolutely perfect so that is could not be at least taken a look at. And because of the questions that have been raised, I think there is justification for getting a group together of knowledgeable people that can take a look at the rules, that can see if they have been followed, to see what has happened in the market if, in fact, there have just been changes in the market. Not necessarily a violation, but simply that some consideration is taken. The market itself has changed. To see if those changes warranted changes in the rules by which the market is constructed. And to make those recommendations so that we answer some of the questions that have been raised regarding what has taken place in recent months.

I do know that I am not an expert to say what that has to be. But there are those who can, and I think if it needs to be done by knowledgeable people so that when changes are made we can expect that they would work because changes that do not work do not solve problems either.

Senator ABDNOR. I certainly do not profess to have any expertise in that field. As a matter of fact, I guess I am one of those farmers who never did trade. But I know that the more that would be required to be put down, perhaps the less speculation. But maybe that is not good for the market. I do not know.

Mr. GROOT. There are different margin requirements, as I understand it, between a managing deposit and a calculator trading deposit. There is a very sizable percentage of business, as I understand.

Senator JEPSEN. As a producer and as a chairman of the soybean association and as a person who has traveled abroad with regard to your association, and I understand that you have, what would it be like if there was no trading in soybeans?

Mr. GROOT. I have wondered about that question a number of times because there is a wide variance of feelings. I am sure you could find some people who would say we should do away with futures trading. And there are some who would say that it is possible for a country or a buyer to come in and look at a sizable portion of a short crop and walk away.

I do not think that in the market system which we operate that we would benefit ourselves by unduly restricting futures trading. Because it is looked at not just domestically here, as I indicated, but internationally. And that particularly for soybeans 50 to 55 percent of the crop needs to be exported each year, that that international trade is very important, not just for our farmers and the Nation's economy, but overseas people who depend on it.

And one of the reasons I think that we have enjoyed that substantial growth is because the system overall generally has worked and has worked reasonably well. And so I would think that we would create more problems by unduly restricting it than by not.

But still, the objective that that futures trading places in the total market scope of things needs to be maintained. And like

many other things, I would expect needs to be watched and needs to be watched by knowledgeable people.

Senator JEPSEN. Now, are you saying here that the Commodity Futures Trading Commission is not performing its oversight function well enough?

Mr. GROOT. I do not know. I understand there will be some people testifying from that. I think what I would be looking at is since CFTC has the primary regular responsibility for the exchange, that they would be the natural agency to initiate taking a review.

Now, that does not necessarily mean that they had not placed adequately. Whether the placing has been done adequately or not, I think the facts would show one way or the other, whatever the facts are. But if they would be the lead agency to assemble a group of knowledgeable people to take a look and see if the placing has been done adequately, if it has then we would know that. If it has not, why? And if there are changes that need to be made, they will make the changes.

Because each board or the board of trade and each exchange also has their committees that review the trading that goes on there in each exchange, as I understand.

Senator JEPSEN. Are you recommending or are you suggesting for a review that is independent of the Commodity Futures Trading Commission in addition to what we do?

Mr. GROOT. I am not familiar enough with the mechanisms they have, whether it would be an additional one or not. So long as it is done adequately and so that we have a feeling of confidence that what is going on is correct.

Senator JEPSEN. You have that feeling today?

Mr. GROOT. I think it needs to be reviewed because I think the question arising—I do not know up to this point. We have had enough information that farmers and some people in the grain trade have some feelings that those questions have been answered adequately and this, of course, reflects on the confidence.

Senator JEPSEN. I am not trying to pull any given answers forward. You are somewhat cautious in calling for a review. Is it an accurate statement that there is a suspicion, without making judgment? You said in a way that there has been a lack of confidence. Is that lack of confidence based more on the lack of education rather than a suspicion on the basis of what farmers see by the way of huge trade volume in the ups and downs of the prices one day, or is it a combination of both?

Mr. GROOT. I think it is a combination of both, Senator. I would probably identify three things. The large movements up and down, which may be one day to the next. The reasons given when the market was analyzed for moving was not a change in the fundamental factors. There was some reason given that there was large trades by groups. It was not that the demand had slacked off that day or that the supply had increased so much that day. We have had some of that, but not in every case.

And so I think that has contributed. There did not seem to be a relationship to the fundamentals that changed that corresponded with the movement in the market. Or at least it was not viewed that way.

And then some public statements that have been made regarding questions and by people in the trades. And there was a particular public statement that had a comment which I think raised some questions. And Mr. Sampson, a farm broadcaster, I understand made some statements. So I think this has also been involved with some of the questions that have kind of evolved and also that I think some people in the grain trade had been making comments and questions also which probably was different from what had happened in other times or periods of years when we have seen a dramatic change in prices, most generally down.

So those three things I think have contributed to raising the question.

Senator JEPSEN. One last question. What should be done or what would one have to do by way of a report or assurance or whatever to completely clear the air, so to speak, for you?

Mr. GROOT. I guess we could name about three things, to see the trading rules have been involved and enforced, to see if there are changes in those rules that need to be made. Because as I have indicated, I have had discussions so far in trying to find background information. I have not found much indication that there were violations. But if there have been, at least it needs to be checked if there were or were not. So we deal from a basis of facts, not from questions and emotions.

Second, if there are changes in those rules that need to be made, what these changes are.

And also, the third thing that if, in fact, the nature of the market itself has changed from—just as an example, a combination of managed accounts and computerization, because I don't think anybody doubts that computerization in society has increased dramatically in the last 2 or 3 years, that if those things have caused the market to change in its nature, that technological changes would be addressed.

So that the objective of the futures trading as far as producers are concerned is that it be a marketing alternative which would serve its subjects of transferring risks to a set price. That is what would, in my mind, help remove the doubt.

Senator JEPSEN. I thank you. I have nothing further. Do you have anything, Senator Abdnor?

Senator ABDNOR. No.

Senator JEPSEN. Thank you.

Mr. GROOT. You are welcome.

Senator JEPSEN. I would advise the witnesses that we will take one more witness now and then we will break for lunch.

Max Naylor, would you please come to the witness stand. Max Naylor from Jefferson, Iowa, and the Iowa Corn Growers Association.

If you have testimony in writing it will be entered into the record as if read, and you may proceed in any way you so desire.

STATEMENT OF MAX NAYLOR, MEMBER, IOWA CORN GROWERS ASSOCIATION, JEFFERSON, IOWA

Mr. NAYLOR. The corn growers feel that the market, No. 1, is a very fragile thing. Hopefully we can keep from manipulating or

putting too many rules and regulations into the market. I would like to see the market act as freely as it possibly can. I understood that there is some suggestion that the market is not acting as a free market currently, and that some people tend to take large positions and therefore they influence the market and they also say they influence the market.

But I think basically the market has to act on its own accord. If the people who take large positions continue to do so at their own risks, I think the penalties that you put on those people should be very large penalties so that they refrain from doing this.

The market has moved contrary to what everyone thinks that it should be moving. I think that there are several things that may be causing this. No. 1 is what I call—we have had the Republican embargo, the Democrat embargo, and now we have the invoker embargo. And I think the interest rates being what they are which makes a very strong dollar overseas tends to discourage the purchase of our commodities. Hopefully, we can have some sort of extended credit and trade credit to alleviate the situation.

I believe that the large positions that some people hold should be very carefully scrutinized by the board of trade, by the CFTC. And if they find something lacking there, I think there should be a task force set up to investigate it further.

I would entertain any questions that you might have, Senator.

[The prepared statement of Mr. Naylor follows:]

PREPARED STATEMENT OF MAX NAYLOR

First of all, Mr. Chairman, on behalf of the Iowa Corn Growers Association, I extend to you our deepest appreciation and gratitude for the invitation to appear before your distinguished panel.

The Iowa Corn Growers Association is committed to educating our producers to all available marketing tools and techniques, including the Chicago Board of Trade. That makes this opportunity doubly important to us.

There are two things that make the Chicago Board of Trade vitally important to corn growers. First, the BOT sets the cash price paid for corn throughout the world. And second, it's a valuable marketing tool. It is the vehicle which provides us with orderly marketing and the transfer of risk.

The BOT and the Commodities Futures Trading Commission must take great care in imposing new rules and regulations. The Board is a fragile instrument and too many additional rules would likely prevent liberal use of the market by many people.

On the other hand, flagrant abuses of the market must be delt with. Obviously, more stringent penalties are necessary. The current system of fines can be little more than a cost of doing business when millions of dollars are involved.

The Corn Growers suggest that you consider the suspension of trading privileges for a period of time as one form of deterrent. The need for a suspension and the required time period would be governed by the CFTC and the BOT.

Another possibility would be a special task force to study the problem and offer recommendations on how to improve the situation.

In short, sir, it would seem that we are not faced with problems that can be solved by statute or additional rules and regulations. We believe there is a need for swift enforcement of existing rules and stiffer penalties to better fit the violations.

We absolutely must know without a doubt that the Chicago Board of Trade is doing each day what it was designed to do -- play a role in the free enterprise system. We must feel confident that the market is reacting to supply and demand pressures, not the tinkering of an individual or company in search of illicit profits.

We belive there is a basic lack of information and understanding about the BOT at the farm level. We also are certain that the market reacts strongly to emotion, which adds an element of caution to our lack of knowledge.

If these perceptions were to be undergirded by an overwhelming distrust or lack of confidence, the Chicago Board of Trade would simply cease to be a marketing option for corn growers.

Our concern in this area is heightened by the awareness that farm income is only available from two places -- the government and the markets. Corn growers don't want to be dependant upon government handouts for survival. But to survive, we must be confident that the available markets are working under acceptable free enterprise principles.

Again, Mr. Chairman, the Iowa Corn Growers Association thanks you for this opportunity to express our concerns and to learn more about a complex but extremely important situation.

Senator JEPSEN. Would you, Mr. Naylor, please explain how hedging is used by farmers as a marketing option, in your opinion, and how much use this option is exercised by the farmers and producers.

Mr. NAYLOR. I think the average farmer is scared to death of hedging at this point.

Senator JEPSEN. Why?

Mr. NAYLOR. Because of lack of education and because the common story is that the farmer down the road lost his farm because he was in the market. I think that the education of the farmer is sorely lacking by the Chicago Board of Trade. They invite us in to play with the market, and to hedge the market, and whatever other opportunities that you want to take with the market.

But, yes, the education part of hedging is sorely lacking. And I think that the use of the market is a very important tool for a producer. He needs to understand exactly what he is doing when he hedges. And I feel that the many new areas that the board of trade is opening up may influence the market by the lack of enough traders in the market, enough people in the market, to make a viable trade.

I am hoping that some day we can stop having so many different kinds of trades that you can perform. They have opened up a whole new area of financial instruments, heating oil, all of the different areas that you can use. And there is only so many people that are interested in these types of trades. And if you put it in too few of hands, I think that you could have problems.

Senator JEPSEN. Mr. Naylor, for the record, would you state what positions you have held with the Iowa Corn Growers.

Mr. NAYLOR. I am currently on the legislative committee of the Iowa Corn Growers. I have been a member of the corn growers and director since its inception. So I have a long record of being with the Iowa Corn Growers. I am also on the National Corn Growers in the legislative area.

Senator JEPSEN. What is your occupation?

Mr. NAYLOR. I am a farmer.

Senator JEPSEN. As a farmer and as an active member of the National and State Corn Growers Associations, have you traveled at any time with regard to the export and trade activities on behalf of the corn growers.

Mr. NAYLOR. I have not on behalf of the corn growers. I have been on a corn production team to Indonesia a decade ago and worked with the State Department on that area with AID.

Senator JEPSEN. You made the statement that you felt that the Chicago Board of Trade should be doing more to educate producers in the use of the board of trade as a financial planning tool, is that correct?

Mr. NAYLOR. That is right.

Senator JEPSEN. What have the corn growers done by way of their organizational effort to educate their members on this matter?

Mr. NAYLOR. Not enough, and very little.

Senator JEPSEN. I gather that you feel there is a real joint effort needed to be made to educate people on the use of the board of trade as a financial planning tool?

Mr. NAYLOR. I think currently that the Iowa Corn Growers are not equipped to handle the education of the farmers toward hedging grain. I think that that should be left up to the brokers, the Chicago Board of Trade, and also to farm organizations, and I am including the corn producers in this State and the main source of funds which are the financial institutions.

Senator JEPSEN. What about our school systems, universities, and colleges? Is this an avenue that could be used to better educate the producers about the board of trade, or do you think it should be specifically controlled and conducted by the board of trade representatives?

Mr. NAYLOR. No. I think that the Iowa State University attempted about 3 or 4 years ago to educate farmers in the use of hedging and the use of the Chicago Board of Trade. They did it at exactly the wrong time. The market was in a reversed position for hedging and with all of the examples that they used, they all turned out to be wrong and it made Iowa State University not very popular as an educational teacher for hedging. And it was very unfortunate. There was no way for them to know that the market would turn. And so it ended up being a very bad deal.

But yes, the colleges and universities should attempt to make farmers aware of the hedging possibilities.

Senator JEPSEN. Well, education is one thing, of course. Trust is another. How can the exchange gain the trust of the farmers and producers?

Mr. NAYLOR. That is a most difficult question because——

Senator JEPSEN. Well, first of all, is there any problem in that area?

Mr. NAYLOR. Oh, my, yes. There is a very definite problem in that area.

Senator JEPSEN. And you make the statement based on a number of years of discussion or recent events or growing accumulation of things? Why do you say that there is distrust?

Mr. NAYLOR. Well, the coffee shop normally has something about markets daily where the farmers hang out. The elevators have the same sort of conversations about what is happening to the market today. They tend to watch carefully the Chicago Board of Trade, the ticker tape, and currently where they are using the computer all the time. They pay close attention to all of these things. But they are strictly hands off when it comes to the time that they should be hedging, when they know that they can get a good price for their commodity. They just absolutely refuse to do it because the best feeling is that they really do not know how to do it, and there are repercussions when they do get in the market. They do not understand it. There is no way you can teach it half as easily as if you get in the market.

The lessons come very clear and sometimes very near when you get in the market.

Senator JEPSEN. You mentioned that there have been different embargoes and now there is a Volcker embargo?

Mr. NAYLOR. I am referring to his control of the interest rate that he has had since the end of 1979 when he decided, or the Federal Reserve decided, that they were going to control the interest rate and farming ended up being a 4- or 5-percent net return. And,

in fact, they have interest rates that run from 10 to 20 percent and currently somewhere in between that range for the country banks. It ended up that the amount of equity that you have to have in your operation is about $3 for every dollar that you are able to borrow and make work.

And so I am saying that if agriculture is going to continue to be under this severe interest rate handicap that we have which is reflected into the world market, makes the dollar very strong, then we can move our goods that cost us some horrendous amount to raise interestwise, we can move those into the market because the dollar is so strong that people refuse to buy.

Now, that is a two-edged sword that I am talking about. On one hand it is the producer and on the other hand it is the person who—the foreign country who is trying to buy.

Senator JEPSEN. I am just curious and want to examine your feeling, for the record, about the direct impact that the Federal Reserve Board has on interest rates. On a scale of 1 to 10, would you say that it is an 8, a 5, a 3? What affect does the Federal Reserve Board's policy and subsequent action have on interest rates?

Mr. NAYLOR. If 10 is complete control, then I would give them a 7 to 8 grading for controlling the interest rate.

Senator JEPSEN. What is your feeling about the deficits of the Federal budget?

Mr. NAYLOR. They are not particularly sorry to me. I tell you it seems to me as if the Federal deficit is the same as if I owe myself money. We are the people and we do owe the money. And it ends up that I have the feeling that I owe myself all that money and I do not care how much I owe. It does not make a damn bit of difference.

Senator JEPSEN. What are the three factors that you think affect prices of feed grains the most?

Mr. NAYLOR. Well, of course I am a fundamentalist. I believe that the supply and demand are the two most important things.

I think that the chartists can move the market because there are so many of them that believe in the charts. I think the large traders can move the market in some small amount because they do buy such horrendous amounts. And the Government obviously can affect the market.

Senator JEPSEN. So you are saying that supply, the board of trade or the people that trade, and the Government affect prices?

Mr. NAYLOR. Yes.

Senator ABDNOR. I just wanted to ask Mr. Naylor: Farmers have been in trouble for a long time. It seems to me that farmers have been hurt a lot more by inflation than even by high interest rates. One is bad enough. They are both here. But the chairman here in his opening comments pointed out how much more grain we produce today but how much higher our expenses are. That is a result of high inflation.

Now, I guess I do not really agree. It does not make a difference how much we owe, we only owe it to ourselves because the dollar has to be covered. I think the way we got into this was we just printed more money and that is when inflation came along.

Do you think it would be healthy if we got back into a period of inflation, if that is the answer to getting interest rates down?

Mr. NAYLOR. Well, you have got to define a little closer what "inflation" is. Is it 10 percent or is it 200 percent? No. 1, inflation in a moderate amount helps everyone because it makes everything that you purchase paid for with a cheaper dollar. And I think that is what the world is all about, is that you have to pay for things if you continue to buy.

Senator ABDNOR. I would agree. We have got to watch the Consumer Price Index because it certainly is not going to be fair to the retired person who has some holdings and he cannot keep up with inflation. We have got to make some allowance for that.

Mr. NAYLOR. Well, I think that you are addressing the question to me. I am not retired nor salaried. So if I were salaried, I would look for a very stable dollar. But if you are active in trying to make a dollar by producing something or by buying some real property or something like that, why, naturally it is easier to pay for it with a cheaper dollar.

Senator ABDNOR. That is true. Let me bring this to a head now. We are talking about confidence in the board of trade. Do you not think, though, that in the educational part, getting the message to the farmers, that the very fact that their group is telling them or carrying more weight in the confidence in the program if they heard it from their own organizations and fellow farmers? I just wonder. If the board of trade people went out, they would say they are trying to sell their own program. That seems to be a big point.

Am I correct? Do you think that if more farmers participated in hedging, that it would add more stability to the board of trade overall?

Mr. NAYLOR. I think it would have more stability than agriculture because the farmer would be getting used to selling something when he knew that he was making a profit if he used it as a true hedge. I presume the more people that I have in one thing the more likely that it will not be misued.

Senator ABDNOR. One thing I asked Mr. Groot: Do you have any real recommendations? Are you satisfied with the rules made by the board of trade? Do you believe there is a need to review those?

Mr. NAYLOR. I think there is a constant need to review things, yes. But I want to reiterate that the market in my estimation is so fragile and it is such a tenuous thing that you have got to use voluminous rules and regulations on that market or it will refuse to work as a free market.

Now, I fully realize that there have to be some rules and regulations. I think that they should be reviewed on a daily basis—not a daily basis, but it should be reviewed at a regular interval to see that they are not being misused. And when they are misused, I think the penalty should be very severe.

Senator ABDNOR. Thank you.

Senator JEPSEN. Do you have a closing statement or anything you would like to say?

Mr. NAYLOR. I am glad I finally got here. I appreciate the opportunity to appear before this committee.

Senator JEPSEN. Thank you for coming.

I will now advise the witnesses here that we will recess for 1 hour. When we come back we will call to the stand Mr. J. Dawson

Ahalt from the U.S. Department of Agriculture, Deputy Assistant Secretary for Economics. Recess for 1 hour.

[Whereupon, a recess was taken until 1:30 p.m.]

AFTERNOON SESSION

Senator JEPSEN. This hearing will come to order.

I now introduce Mr. J. Dawson Ahalt, the Assistant Secretary for Economics, U.S. Department of Agriculture. Your written statement will be entered into the record as if read. You may proceed in any way you so desire. Welcome. Good to see you.

STATEMENT OF J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE

Mr. AHALT. I appreciate the chance to present a statement before your Joint Economic Committee. What I would like to do, Mr. Chairman, is just briefly summarize my comments and then respond to your questions. As I said, I appreciate the opportunity to be here. I think that the subject is an important one.

We believe that efficient markets and good marketing facts are crucial to having a healthy agricultural economy. In this regard, we think that and we commend you, Mr. Chairman, for digging into this complex matter. As you know, the Department of Agriculture no longer has any regulatory responsibility to commodity markets, the futures markets, and so on, because when the responsibility for the old commodity exchange authority was transferred to the Commodity Futures Trading Commission, they took over the role in 1975.

And as a result, what I would like to do with you here this afternoon is to talk about the market fundamentals which we do have responsibility for in the Department and in that regard. And we take that responsibility very important. We believe that timely reliable and objective commodity intelligence is extremely important to the agricultural economy.

Farmers need good information as well as the rest of the participants in the marketing and processing change. The trouble is that commodity markets by their very nature are often very volatile and that is because the many factors here and abroad that influence market behavior. And as a result, forecasts do miss the mark. They go astray. The best we can do is to try to do our best and to make objective estimates. And when we miss the mark, we try to find out the reason for it. And that is what I would like to do here this afternoon.

So far as these crop prices go, there is no question that they are well below market expectation and corn and especially soybeans have fallen the most. I would say, Mr. Chairman, that you could base the decline on two principal factors: A weakening in the demand picture and a larger supply situation than we had earlier estimated. And the forces have been influenced in both cases by developments not only in the United States, but abroad.

I think to get the best picture of what is happening it helps to go back to last summer during the growing season. At that time we knew that, of course, we had had very good success in the 1983 program and we knew that was going to give us smaller crops in 1983.

What we did not know was the severity and the duration of the drought that really was the most severe that we have had in this country for a long time. And we really could not foresee those developments.

What happened was that commodity prices which have been depressed by these very large supplies and huge stocks began to respond as the severity of the drought became known. It is useful to go back to September because during September we were at the point where we were beginning to get a pretty good fix on our soybean and corn crops. The September soybean crop was estimated by a statistical reporting service at 1½ billion bushels. That was down more than 300 billion from August indications and more than 500 million or one-half billion bushels from what we had thought the crop would look like early on. And compared to 1982, it was 31 percent smaller.

We had a similar situation with corn. Our September corn crop estimate was placed at 4.4 billion bushels, down about 30 percent from the earlier season estimate and about half the size of the crop that had been produced in previous years. These big drops in production sparked a rally in both the corn and the soybean markets. Farm prices for soybeans went up to more than $8.25 a bushel in September, and just earlier that summer they had been running around $6. From that $8.25 level they have since come down to somewhere around mid-$7 level at the farm.

For corn, the situation was not as sharp, the increases, but it was pretty much the same. In the fall of 1982, average corn prices, Mr. Chairman, were under $2 a bushel. That was the time when we began trying to figure out what we would do for 1983 and it provided seeds for developing the idea of the payment in the program. Those prices had risen to about $3 in the early summer and by September they got up to $3.35 average at the farm. Speaking average nationwide got up to about $3.35 in August and September. They, of course, have also come off from those levels. They are running about $3.15, somewhere in that neighborhood.

As prices have strengthened and as these production declines came in, our analysts projected higher prices for the current marketing year. Our midpoint price forecast was raised from $3.05 to about $3.60 in September. Since that time, as both the supply and the demand situation have changed, we have pulled both our corn and soybean price forecasts down.

Now, there is no question that the decline has caused a lot of concern. It has caused us concern. We have tried to understand it. I know that some people have raised questions as to whether or not there has been some form of market manipulation.

As we look back, Mr. Chairman, it looks to us now as if our analysts were overly optimistic. We believe that one of the reasons that they were overly optimistic is that they looked too much at production changes rather than stock changes. They forgot the fact that we had these huge record carryovers of both corn and soybeans that would be available to be used during the marketing year. With the final adjustments on the crop which indicated they were a little larger than we had earlier estimated, we were in a different situation. Our price forecasts are lower than they were earlier, Mr. Chairman, but they are—currently we are about 11

percent below where we were in September on our midyear forecast for soybeans and about 8 percent lower for corn. But even with these lower forecasts, as we look at the supply/demand situation for the balance of the crop year, we expect that marketing prices are going to rise from current levels and then they will be influenced by planting and weather conditions for the 1984 crops.

The other thing that we have tried to analyze, Mr. Chairman, is the relationship between the corn and soybean markets. Typically the soybean prices average about 2.4 above the price of corn. In the fall of 1982 that ratio fell to 2.1 percent. It is now back to about 2.5. So we believe that the markets are in reasonable balance given the information that we now have.

What I would like to do is to now highlight six factors, Mr. Chairman, that we believe have changed the market over the last several months. The first one is the continuing large wheat supplies and low wheat prices relative to the price of corn that has encouraged substantially more wheat feeding. We are currently estimating 150-million bushels more of wheat being fed than we did as recently as August, which means we are going to feed twice the amount of wheat in 1983–84 as we did in 1982–83. This record level feeding obviously affects the corn market.

The other thing, of course, that happens is that it affects the protein market because wheat is higher in protein content than corn. And as a result, we believe that it has probably been a factor in reducing meal demand, slightly, because of the very abundance of wheat throughout the country.

The other thing that has happened in the corn market is that the production of the other feed grains, barley and oats, was down much less than the corn crop. So that we are projecting an increase in the amount of these feed grains that will be fed this year while corn feeding we are estimating will be one-fifth for the season.

The second factor that we believe has contributed to a weaker market than we thought earlier have been developments in the livestock industry. Livestock ouput is not up as much as we thought it would be. There are a couple of reasons. One is that the Adrian flue has affected in the east poultry production, particularly egg production. Second, pork production is not going to be as large as we thought it was earlier. Third, we expect with the new dairy diversion program in effect that milk production will be less than we thought it woud be likely last fall.

The third factor I would mention, Mr. Chairman, deals with the dollar, the point that you discussed with the previous witness here. The dollar has been a factor in reducing the competitiveness of U.S. commodities abroad. It has significantly slowed export markets for our soybeans, our soybean meal and our corn. The European community probably is the best example because they are a big soybean customer of ours. Our sales to date into West Europe are down 30 percent from a year ago. We believe that is because the price of soybean meal in Europe due largely to the stronger dollar simply makes it more difficult for soybean meal to compete with out feed stuff.

The fourth point is also related to the dollar. Because of the problem in many middle-income countries, the strong dollar worsens that situation. And what we are seeing is other exporters,

namely Brazil and Argentina expanding their protein exports, their soybean meal exports, soybeans and soybean meal and we believe they are doing it because they want foreign currency. Their exports are up to a million tons from what we had thought they would move out of there this fall. And in order to get that, Mr. Chairman, they have to shorten their domestic utilization. So we believe they are doing it in order to gain additional dollars.

The fifth point is that crops in the southern hemisphere are turning out to be much larger than we had been expecting. Soybean crops in Argentina and Brazil now appear that they will be record large, as much as one-tenth above last year. And, of course, grains in South America and Australia are also larger.

If you looked at combined course grain output in 1983–84, we expect it will be up 23 percent. And those countries are very export oriented.

The last point that I would like to make comes back to the wheat market. There are a number of countries that import feed stuffs that are turning to feed grain or soft wheat in the current year. Korea, we are estimating, is reducing its course grain imports by about 1 million metric tons this year and they are purchasing feed wheat. We know also that several other countries are making inquiries into our competitors on availability of wheat for feeding. We now believe that this big wheat crop in Australia coming on has been damaged by excessive rain at harvest time and that they will try to move both supplies into feed channels.

Those are the key points, Mr. Chairman. I would summarize by saying that we believe our analysts and analysts in the private trade did overreact to the potential of the drought last fall. As I mentioned earlier, we think that we probably looked too much at the production adjustments as compared to the supply adjustments. To put that in perspective for you, I mentioned earlier our corn crop was down about 50 percent in the previous year. Our corn supply is down only by about 30 percent from last year. So it is the very large stocks that made a much different situation.

And as a result, prices have come down as the market has been aware of these more recent developments, in terms of larger supplies and weaker demand.

But when we put all this information together, these recent developments together, we believe that the markets are really not that far out of line with the fundamental developments. To help put the picture in perspective, I have attached a number of rather detailed tables to my statement which I hope could be in the record, Mr. Chairman. That completes my summary.

Senator JEPSEN. The tables will be entered into the record.

[The prepared statement of Mr. Ahalt and tables referred to follow:]

34-280 O—84——4

Prepared Statement of J. Dawson Ahalt

Mr. Chairman, I appreciate the opportunity to present a statement before the Joint Economic Committee on the subject of "Farm Commodity Market Performance and Economic Forecasts." We believe that efficient market performance and acccurate market information are essential to a healthy agricultural economy. In this regard we share the Chairman's interest in this matter, even though the U.S. Department of Agriculture has had no regulatory function over the commodity markets since the Commodity Exchange Authority was abolished and the CFTC assumed responsibility in 1975. Therefore, my remarks today will focus on the fundamentals in the marketplace over the past 6 months.

The U.S. Department of Agriculture takes very seriously its role of providing timely, objective and reliable commodity market intelligence to farmers, processors, and others throughout this diverse agricultural economy. Due to the inherent instability associated with farm commodity markets and the many complex factors around the world that influence market behavior, forecasts do sometimes go astray. When this happens, as it has in the last few months, it is important to examine the reasons for it. We have tried to carefully address the factors that have altered the course of market behavior. I hope my testimony will shed some light on this subject.

Recent crop prices have been below earlier expectations, with soybean and corn prices lagging the most. Developments keeping prices below USDA's September estimates include weaker-than-expected demand in domestic and export markets, and larger-than-anticipated crop supplies in the U.S. and other countries.

Demand for U.S. agricultural products has been dampened by continued slow economic recovery in many developed and developing countries, coupled with severe debt problems in a number of middle income countries. Of greater importance is further erosion of the U.S. share of this slow growth in global markets by several factors, including: the very strong dollar; improved crop harvests in several Northern Hemisphere countries, including China; greater-than-expected soybean availabilities from the 1982/83 crop in Brazil; and projected large 1983/84 grain and soybean crop harvests in Southern Hemisphere countries, including Australia, South Africa, Brazil and Argentina.

Record supplies of wheat have led to prices that have become very competitive in feed markets. This has cut more deeply than expected into feed grain and soybean markets, both at home and abroad. Also, some evidence exists that U.S. processors and exporters bought corn and soybeans heavily last summer in anticipation of further price rises, thus reducing product demand in recent months.

U.S. crop prospects declined dramatically last summer. While the impact of the PIK (Payment-In-Kind) program was predictable, the hot, dry weather during the growing season could not have been foreseen. In

response to PIK and weather developments, soybean and corn prices increased from levels depressed by record carry-in stocks and weak demand as the season progressed. The sharpest price increases were recorded as the drought severity became certain. The September USDA Crop Production report indicated a U.S. soybean crop of only 1,535 million bushels, down more than 300 million from August indications, more than 500 million bushels from early-season projections, and 700 million bushels (or 31 percent) from 1982's production. The U.S. corn crop in September was estimated at 4,390 million bushels, down about 30 percent from the early-season projection and nearly one-half the 1982 level.

This projected shortfall sparked a sharp rally in soybean and corn prices. Farm prices for soybeans rose to average more than $8.25 a bushel in September, compared to early summer prices that averaged just below $6.00. From the September highs, prices gradually dropped to the mid-to-upper $7.00 range in December and early January.

The late summer price rise for corn was not as abrupt as for soybeans, but it was significant. With heavy participation in the PIK program, farm prices already had climbed from below $2.00 a bushel in the fall of 1982 to around $3.00 by early-summer 1983. In August and September, farm level corn prices increased to about $3.35 as the magnitude of the crop shortfall became apparent. Corn prices declined to average $3.15 in October and remained at about that level through December. USDA had increased the season average mid-point price forecast from $3.05 in August to $3.60 in September. USDA reduced the mid-point forecast to $3.40 in December and to $3.30 in January.

The extent of the price declines caught many by surprise, with some market participants raising questions about price manipulation. In retrospect, it now appears that USDA analysts were overly optimistic about the level of season-average farm level prices at the beginning of the marketing year. But careful analysis shows a number of market developments account for weaker prices than previously indicated, including the 58-million-bushel-upward January revision in the U.S. soybean crop and an 83-million-bushel increase in the corn crop. Still, with the further reduction in season-average price forecasts in January, the mid-point of USDA season-average price estimates is down only 11 percent from the September estimate for soybeans and 8 percent for corn. Moreover, current supply-demand prospects suggest that in order to achieve current season-average price forecasts, market prices will have to strengthen from current levels.

Soybean prices relative to corn recovered to near 2.5:1 in the October-December quarter, compared to 2.1:1 last year and an average relationship of 2.4:1. This return to a more normal price relationship between soybeans and corn was expected and suggests that soybean/corn markets are operating efficiently.

More specifically, factors contributing to weaker-than-expected prices are:

(1) Continuing large U.S. wheat supplies and low wheat prices relative to corn prices have encouraged much more wheat feeding than anticipated earlier. Current wheat feeding estimates are about

150 million bushels higher than in August and nearly double last year's level. This record level of wheat feeding has been significant in moderating corn feed demand and price prospects. Prospects for another large U.S. wheat crop in 1984 and the reduction in the wheat loan rate have contributed to less vibrant corn and soybean markets. Also, wheat is higher in protein content than corn and this has reduced the need for protein supplements in feeds and helped cut meal demand. Evidence also exists that other feedgrains are being substituted for corn to a greater extent than anticipated. Combined production of other feed grains dropped less than for corn, and feed use of those grains appears to be increasing about 7 percent in 1983/84. Feed use of corn is projected down nearly one-fifth this year.

(2) A number of developments in the livestock sector have probably had a price-dampening effect on U.S. meal and feedgrain markets: a) lower-than-expected levels of output in the poultry industry, particularly for eggs where the avian influenza outbreak has contributed to lower production; b) lower projected pork output than anticipated earlier; and c) lower milk output than expected before the recent enactment of the dairy diversion program.

(3) A stronger-than-anticipated dollar abroad has contributed to a more significant slowing in export demand for soybeans, soybean meal, and corn than expected earlier. Meal demand has particularly been hurt in the EC. For example, meal prices relative to

grain prices in the EC are sharply above year-earlier levels because of the strong dollar, limiting meal in the total mix of feedstuffs. To date, U.S. soybean exports to West European destinations are off 30 percent.

(4) International debt servicing problems, made more difficult by a strong dollar, are encouraging other exporters to step up sales to obtain much needed foreign currency. For example, nearly 1 million tons more soybeans and soybean meal than expected were shipped from Brazilian and Argentine origins in late summer and fall 1983. In Brazil's case, domestic soybean meal use was cut 25 percent. Hastened selling and actual diversion of meal from domestic uses permitted more international arbitrage by trading firms and contributed to capping off prices for soybeans and meal.

(5) Expectations for larger Southern Hemisphere crops have had a larger negative impact on prices than earlier thought. The good performance so far of this season's soybean crops in Argentina and Brazil suggests record output for each country, with combined production expected to be 10 percent above last year. On the coarse grain side, South America and Australia are staging more impressive recoveries from last year's reduced levels than considered probable earlier. The combined coarse grain output of Argentina, Brazil, and Australia now is expected to be 23 percent above 1982/83 levels.

(6) Soft wheat now appears to be competing more vigorously than usual with corn for foreign markets. Some importers appear to be turning away from corn to less expensive, and more widely available wheat and other feed grains. It now appears, for example, that South Korea will be importing nearly 1 million tons less corn than expected earlier, with additional wheat, barley, and other feed grains being imported instead. Other importing countries are also showing interest in feed wheat. It also has become evident that an unusually large percentage of Australia's bumper wheat harvest is rather poor quality and that the Australians will want to move that wheat into foreign feed channels. Wheat production among the major foreign exporters probably will be up about 8 percent this year, while U.S. output is down nearly 14 percent.

In summary, market prices for soybeans and corn have been below levels projected by USDA and many private analysts last fall. There appears to have been an initial market overreaction to the drought's potential impact on prices, with the market focusing on production shortfalls rather than total available supplies. Prices then came down substantially with fuller market recognition of ample global supplies of grains and oilseeds coupled with weaker demand than expected. On balance, however, a review of price-related developments since last fall indicates that market performance has been fairly well in line with the unforeseen factors adversely impacting on prices.

To help better understand the factors that I have reviewed with you today, and to provide for a more complete hearing record, I have included a series of tables with my statement that I hope can be included in the record.

This completes my statement Mr. Chairman. Thank you for the opportunity to appear before this Committee on this issue. I now am prepared to respond to your questions.

Table 1. Production, Use and Price Forecasts for Selected Commodities, By Month Forecast Was Made, 1983/84 Marketing Year

Item	Units	1983/84 Forecasts								
		May	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan.
1983/84 Corn; U.S.										
Production	Mil. bu.	6050	6050	6200	5237	4390	4259	4121	4121	4204
Supply	"	9485	9485	9585	8672	7825	7694	7262	7262	7345
Feed & Res.	"	4300	4300	4500	4250	4050	4000	3925	3925	3925
Exports	"	2100	2100	2050	2000	1925	1925	1875	1875	1875
Season avg. price 1/	$/bu.	2.75	2.75	2.75	3.05	3.60	3.60	3.60	3.40	3.30
1983/84 Soybeans; U.S.										
Production	Mil. bu.	2075	2075	1990	1843	1535	1517	1537	1537	1595
Supply	"	2470	2515	2445	2298	1990	1904	1924	1924	1982
Crush	"	1130	1140	1140	1105	1010	975	975	975	985
Exports	"	940	930	890	830	740	720	720	710	725
Season avg. price 1/	$/bu.	6.25	6.15	6.25	7.25	9.00	9.00	9.00	8.35	8.00

1/ Approximate mid-point of published price ranges.

(SH:D7:#37)

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Table 2. South American Soybean and Soybean Meal Exports, By Month Forecast Was Made, 1983/84 Marketing Year

Item	Units	1983/84 Forecasts								
		May	June	July	August	Sept.	Oct.	Nov.	Dec.	Jan.
Brazil Soymeal Exports										
1982/83	Thous.MT	---	---	8100	8100	8100	8100	8500	8623	8623
1983/84	"	---	---	8300	8300	9500	8500	8500	8600	8700
Argentina Soybean Expts.										
1982/83	Thous.MT	---	---	1100	1100	1100	1100	1100	1417	1417
1983/84	"	---	---	2000	2500	2500	2500	2500	2500	2500

(SH:D7:#32)

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TABLE 3. SOYBEAN SUPPLY-USE PROJECTIONS

Item	1983/84 Projections		Change September to January
	Sept.	Jan.	
	-- Million metric tons --		-- Pct --
Production			
World	77.52	79.37	+2
U.S.	41.78	43.42	+4
Total Foreign	35.75	35.95	+1
Major Foreign Exporters 1/	20.00	20.30	+1
Major Importers	--	--	--
Crushings			
World	73.47	72.92	-1
U.S.	27.49	26.81	-3
Total Foreign	45.98	46.12	--
Major Foreign Exporters	16.00	15.60	-3
Major Importers	--	--	--
Exports			
World			
Soybeans	25.20	25.32	0
Soy Meal	21.48	21.93	+2
U.S.			
Soybeans	20.14	19.73	-2
Soy Meal	5.58	5.44	-3
Major Foreign Exporters			
Soybeans	3.70	4.30	+16
Soy Meal	10.10	10.42	+3
Imports			
Total Foreign (World)			
Soybeans	24.98	25.36	+2
Soy Meal	21.46	21.84	+2
Prices, U.S.			
Soybeans ($/M.T.)	330	290	-12
Soy Meal ($/M.T.)	265	235	-11

1/ Every 1 percent change in U.S. quantities is associated with an estimated 1.25 percent change in price. Consequently, U.S. production changes account for an estimated 5 percent of the 12 percent drop in price prospects. Lower demand accounts for rest.

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TABLE 4. TOTAL WHEAT AND COARSE GRAINS/SUPPLY-USE PROJECTIONS

Item	1983/84 Projections		Change September to January
	Sept.	Jan.	
	-- Million metric tons --		-- Pct --
Production			
World	1,164.3	1,176.2	+1.0
U.S.	208.3	204.0	-2.1
Total Foreign	956.0	972.2	+1.7
Major Foreign Exporters 1/	175.6	181.9	+3.6
Major Importers 2/	454.4	461.1	+1.5
Consumption			
World	1,230.6	1,240.1	+0.8
U.S.	184.8	187.4	+1.4
Total Foreign	1,045.8	1,052.7	+0.7
Major Foreign Exporters 1/	97.2	100.5	+3.4
Major Importers 2/	549.7	555.0	+1.0
Exports			
World	206.5	204.8	-0.8
U.S.	94.8	93.1	-1.8
Major Foreign Exporters 1/	89.0	89.6	+0.7
Imports			
World	201.1	200.3	-0.4
Total Foreign	200.8	199.8	-0.5
Major Importers 2/	117.5	117.5	0

1/ Major wheat exporters: Canada, Australia, Argentina, and the EC; major coarse grain exporters: Canada, Australia, Argentina, South Africa, and Thailand.

2/ Major wheat importers: Eastern Europe, USSR, Japan, China, Brazil, Egypt, Morocco, Algeria, Tunisia, and Libya; major coarse grain importers: the EC, other Western Europe, Eastern Europe, USSR, and Japan.

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TABLE 5. COARSE GRAINS/SUPPLY-USE PROJECTIONS

Item	1983/84 Projections		Change September to January
	Sept.	Jan.	
	-- Million metric tons --		-- Pct --
Production			
World	684.8	688.4	+0.5
U.S.	142.8	138.0	-3.4
Total Foreign	542.0	550.4	+1.5
Major Foreign Exporters 1/	61.1	63.5	+3.9
Major Importers 2/	252.8	258.4	+2.2
Consumption			
World	759.9	759.6	0
U.S.	156.9	156.6	-0.2
Total Foreign	602.1	603.1	-0.2
Major Foreign Exporters 1/	37.9	37.1	-2.1
Major Importers 2/	301.4	303.3	+0.6
Exports			
World	100.5	98.8	-1.7
U.S.	56.7	55.0	-3.0
Major Foreign Exporters 1/	25.8	26.9	+4.3
Imports			
World	100.2	97.0	-3.2
Total Foreign	100.0	96.6	-3.4
Major Importers 2/	62.4	60.5	-3.0

1/ Canada, Australia, Argentina, South Africa, and Thailand.

2/ EC (including intra-trade), other West European countries, Eastern Europe, USSR, and Japan.

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TABLE 6. WHEAT SUPPLY-USE PROJECTIONS

Item	1983/84 Projections		Change September to January
	Sept.	Jan.	
	-- Million metric tons --		-- Pct --
Production			
World	479.5	487.8	+1.7
U.S.	65.5	66.0	+0.8
Total Foreign	414.0	421.8	+1.9
Major Foreign Exporters 1/	114.5	118.4	+3.4
Major Importers 2/	201.6	202.7	+0.5
Consumption			
World	471.6	480.4	+1.9
U.S.	27.9	30.8	+10.4
Total Foreign	443.7	449.6	+1.3
Major Foreign Exporters 1/	59.3	63.4	+6.9
Major Importers 2/	248.3	251.7	+1.4
Exports			
World	106.0	106.0	0
U.S.	38.1	38.1	0
Major Foreign Exporters 1/	63.2	62.7	-0.8
Imports			
World	100.9	103.3	+2.4
Total Foreign	100.8	103.2	+2.4
Major Importers 2/	55.1	57.0	+3.4

1/ Canada, Australia, Argentina, and the EC (including intra-trade).

2/ Eastern Europe, USSR, Japan, China, Brazil, Egypt, Morocco, Algeria, Tunisia, and Libya.

January 23, 1984

AC1:14

TABLE 7. U.S. FEED USE PROJECTIONS

Item	Current 1982/83 Estimate	1983/84 Projections		Change
		Sept.	Jan.	Sept. to Jan.
	-- Million metric tons --			-- Pct --
Feed Use				
Corn	121.2	102.9	99.7	-3.1
Other Feed Grains	26.7	23.9	25.7	+7.5
Total	147.9	126.8	125.4	-1.1
Wheat	7.9	7.6	9.4	+23.7
Total Grains[1/]	156.1	134.7	135.2	+3.7
Meals				
Soybeans	17.5	16.3	16.0	-1.8
Other	2.1	1.5	1.4	-6.7
Total	19.6	17.8	17.4	-2.2
Total Grains and Meals	176.2	152.5	152.6	0

1/ Includes rye

January 23, 1984

AC1:3

TABLE 8. U.S. ANIMAL PRODUCT OUTPUT PROJECTIONS

Item	1983/84 Projections	
	Sept.	Jan.
	-- Pct. Change From Year Ago --	
Beef	-2.0	1.2 1/
Pork	5.0	3.7
Total Poultry	0.7	-1.0
Total Meat	0.6	1.1
Milk	-0.1	-5.1

1/ Includes cow beef production under dairy diversion program.

January 23, 1984

AC1:13

Table 9. U.S. and Rotterdam Prices of Corn, Soybeans and Products, October 1982-December 1993

Item	Soybeans			Corn	Soybean/corn price ratio	ECU/ dollars	Soybean Meal		Soybean Oil	
	Rotterdam	Central Ill.	Farm	Farm			Rotterdam	Decatur	Rotterdam	Decatur
	--- Dollars per bushel ---				Percent		--- Dollars per metric ton ---			
1982										
October	5.77	5.12	5.06	1.98	2.556	.93060	192	173	416	382
November	6.29	5.50	5.34	2.13	2.507	.93390	213	193	403	386
December	6.31	5.53	5.46	2.26	2.416	.96770	217	196	399	367
1983										
January	6.37	5.62	5.56	2.36	2.356	.93790	216	198	397	362
February	6.45	5.70	5.66	2.56	2.109	.94410	211	195	395	380
March	6.53	5.81	5.82	2.71	2.148	.92380	211	195	394	390
April	6.86	6.19	6.08	2.94	2.068	.92110	219	206	434	426
May	6.83	6.10	6.05	3.03	1.997	.90600	217	205	434	435
June	6.61	5.92	5.91	3.04	1.944	.89180	210	193	425	428
July	7.16	6.43	6.28	3.13	2.006	.86220	226	209	477	463
August	9.23	8.26	7.57	3.35	2.260	.84260	279	257	651	666
September	9.53	8.73	8.28	3.32	2.494	.85940	277	257	736	756
October	8.95	8.25	7.96	3.15	2.527	.86364	267	251	687	672
November	8.82	8.04	7.80	3.17	2.461	.83835	265	248	652	615
December	8.49	7.79	7.61	3.14	2.424	.80838	254	240	673	603

(SH:D7:#38)

January 23, 1984

Table 10.--Futures and cash prices for corn, wheat and soybeans 1/

Month & date	Futures			Cash										
				Corn						Wheat		Soybeans:	Gulf Export, Barge	
	Corn 2/	Wheat 2/	Soybeans 2/	Chicago 3/	Omaha 3/	Iowa 4/	E.Colo. 5/	Columbia S.C. 6/	Portland 7/	Chicago 8/	Kansas City 9/	Chicago 10/	Soybeans 11/	Corn 11/
1983														
Jan. 14	2.94	3.98	6.32	2.52	2.42	2.25	2.66	NQ	NQ	3.42	4.01	5.93	6.10	2.67
Feb. 15	2.99	4.04	6.52	2.81	2.65	2.52	2.75	2.79	NQ	3.48	4.10	5.99	6.17	3.00
Mar. 15	3.00	3.79	6.32	2.86	2.75	2.62	2.84	2.90	3.68	3.25	4.16	5.82	6.05	3.07
Apr. 15	3.07	3.97	6.75	3.16	3.10	2.96	3.14	3.16	3.98	3.49	4.24	6.25	6.42	3.39
May 16	2.98	3.90	6.70	3.09	3.02	2.90	3.13	3.24	3.97	3.56	3.99	6.31	6.49	3.32
June 15	2.82	3.77	6.22	3.20	3.09	3.00	3.22	3.36	4.02	3.53	3.98	5.96	6.16	3.41
July 15	3.04	3.77	6.88	3.24	3.17	3.08	3.42	3.24	4.05	3.57	3.68	6.44	6.65	3.52
Aug. 15	3.73	4.22	9.16	3.72	3.56	3.53	3.28	3.68	4.40	3.80	3.95	8.78	9.06	4.06
Sept.15	3.56	3.96	8.74	3.38	3.20	3.18	3.27	3.58	4.16	3.51	3.87	8.40	8.60	3.63
Oct. 14	3.52	3.84	9.06	3.51	3.32	3.26	3.16	3.72	NQ	3.61	3.91	8.81	9.09	3.82
Nov. 15	3.57	3.62	8.32	3.57	3.29	3.29	3.21	3.73	3.88	3.38	3.81	8.14	8.52	3.84
Dec. 15	3.29	3.51	7.56	3.30	3.10	3.01	3.14	3.40	3.66	3.49	3.83	7.57	7.85	3.49
1984														
Jan. 3	3.30	3.54	7.84	3.26	3.12	3.04	3.02	3.50	3.74	3.54	3.80	7.90	8.29	3.58
4	3.30	3.55	7.74	3.27	3.12	3.02	3.03	3.52	3.73	3.55	3.80	7.78	8.21	3.61
5	3.33	3.59	7.88	3.31	3.14	3.06	3.13	3.56	3.77	3.54	3.82	7.94	8.34	3.63
6	3.30	3.59	7.64	3.28	3.12	3.04	3.10	3.53	3.72	3.54	3.83	7.70	8.10	3.61
9	3.31	3.59	7.53	3.28	3.12	3.04	3.12	3.54	3.73	3.54	3.83	7.58	8.00	3.63
10	3.34	3.61	7.70	3.32	3.16	3.06	3.11	3.57	3.76	3.56	3.84	7.75	8.17	3.65
11	3.34	3.60	7.71	3.32	3.16	3.07	3.11	3.58	3.76	3.56	3.85	7.76	8.22	3.68
12	3.35	3.62	7.76	3.32	3.17	3.08	3.11	3.58	3.77	3.57	3.86	7.82	8.24	3.68
13	3.35	3.62	7.78	3.33	3.13	3.05	3.11	3.58	3.78	3.56	3.86	7.82	8.24	3.66
16	3.27	3.57	7.48	3.24	3.09	3.00	3.08	3.42	3.69	3.52	3.84	7.56	7.98	3.57
17	3.30	3.55	7.30	3.28	3.12	3.02	3.08	3.48	3.71	3.50	3.84	7.38	7.80	3.60
18	3.28	3.48	7.26	3.28	3.10	3.02	3.08	3.47	3.70	3.44	3.83	7.34	7.76	3.58

NQ = no quote. 1/ Dollars per bushel. 2/ March contracts for corn and wheat and January for soybeans, Chicago Board of Trade.
3/ Prices at terminals for #2 yellow corn on a to-arrive basis. 4/ Midpoint of price range bid to farmers at elevators in Central Iowa.
5/ Midpoint of price range bid to farmers at elevators in eastern Colorado. 6/ Prices at elevators for Central and Pee Dee areas of S. C. 7/ Prices at elevators for Midwest origin #2 yellow. Prices for delivery during the first half of November beginning October 28. 8/ Prices at terminals for #2 soft red winter for 30-day delivery. 9/ Prices at terminals for #1 hard red winter.
10/ Prices at terminals for #1 yellow on a to-arrive basis. 11/ Export terminal price for #2 yellow corn and soybeans for prompt or 30-day delivery.
(SN:DS:#12)

January 19, 1984

...ble 11--Futures and cash prices for corn, wheat and soybeans 1/

Month & date	Futures			Cash										
				Corn						Wheat			Soybeans: Gulf Export, Barge	
	Corn 2/	Wheat 2/	Soybeans 2/	Chicago 3/	Omaha 3/	Iowa 4/	E.Colo.-W.Kan.5/	Columbia S.C. 6/	Portland 7/	Chicago 8/	Kansas City 9/	Chicago 10/	Soybeans 11/	Corn 11/
1982														
Jan. 15	NQ	NQ	NQ	2.57	NQ	2.26	2.46	NQ	3.32	3.79	4.41	6.32	6.82	3.04
Feb. 16	NQ	NQ	NQ	2.50	2.44	2.28	2.57	2.64	3.37	3.49	4.26	6.09	6.46	2.78
Mar. 15	NQ	NQ	NQ	2.59	2.45	2.31	2.47	2.54	3.42	3.42	4.25	6.16	6.54	2.86
Apr. 15	NQ	NQ	NQ	2.71	2.62	2.46	2.58	2.78	3.50	3.77	4.30	6.43	6.66	3.00
May 14	NQ	NQ	NQ	2.72	2.64	NQ	NQ	2.82	3.66	3.42	4.27	6.63	6.88	2.94
June 15	NQ	NQ	NQ	2.74	2.66	2.50	2.77	2.80	3.64	3.35	4.28	6.33	6.51	2.94
July 15	NQ	NQ	NQ	2.71	2.60	2.45	2.86	2.70	3.49	3.37	3.70	6.32	6.56	2.91
Aug. 16	NQ	NQ	NQ	2.20	2.08	2.00	2.41	2.21	3.10	3.29	3.63	5.45	5.70	2.48
Sept.15	2.68	NQ	NQ	2.10	2.25	2.08	2.42	2.15	3.23	3.22	3.78	5.43	5.74	2.50
Oct. 15	2.66	3.67	NQ	2.06	2.08	1.84	2.23	2.06	3.00	2.95	3.61	5.28	5.44	2.28
Nov. 15	2.64	3.78	6.02	2.34	2.36	2.18	2.49	2.32	NQ	3.36	3.83	5.58	5.91	2.60
Dec. 15	2.70	3.65	6.02	2.41	2.36	2.20	2.62	2.42	NQ	3.15	3.96	5.63	5.99	2.69
1983														
Jan. 14	2.84	3.86	6.32	2.52	2.42	2.25	2.66	NQ	NQ	3.42	4.01	5.93	6.10	2.67
Feb. 15	2.92	3.92	6.52	2.81	2.65	2.52	2.75	2.79	NQ	3.48	4.10	5.99	6.17	3.00
Mar. 15	2.92	3.66	6.32	2.86	2.75	2.62	2.84	2.90	3.68	3.25	4.16	5.82	6.05	3.07
Apr. 15	2.99	3.85	6.75	3.16	3.10	2.96	3.14	3.16	3.98	3.49	4.24	6.25	6.42	3.39
May 16	2.89	3.78	6.70	3.09	3.02	2.90	3.13	3.24	3.97	3.56	3.99	6.31	6.49	3.32
June 15	2.74	3.69	6.22	3.20	3.09	3.00	3.22	3.36	4.02	3.53	3.98	5.96	6.16	3.41
July 15	2.96	3.70	6.88	3.24	3.17	3.08	3.42	3.24	4.05	3.57	3.68	6.44	6.65	3.52
Aug. 15	3.66	4.13	9.16	3.72	3.56	3.53	3.28	3.68	4.40	3.80	3.95	8.78	9.06	4.06
Sept.15	3.48	3.80	8.74	3.38	3.20	3.18	3.27	3.58	4.16	3.51	3.87	8.40	8.60	3.63
Oct. 14	3.54	3.71	9.06	3.51	3.32	3.26	3.16	3.72	NQ	3.61	3.91	8.81	9.09	3.82
Nov. 15	3.58	3.47	8.32	3.57	3.29	3.29	3.21	3.73	3.88	3.38	3.81	8.14	8.52	3.84
Dec. 1	3.41	3.48	8.13	3.48	3.20	3.18	3.21	3.56	3.79	3.55	3.85	8.07	8.44	3.67
2	3.36	3.46	7.84	3.42	3.16	3.14	3.19	3.52	3.74	3.54	3.85	7.82	8.14	3.62
5	3.31	3.42	7.66	3.37	3.12	3.09	3.18	3.50	3.69	3.50	3.82	7.63	8.00	3.57
6	3.29	3.39	7.64	3.33	3.10	3.08	3.18	3.44	3.67	3.47	3.82	7.61	7.97	3.56
7	3.34	3.39	7.82	3.38	3.15	3.10	3.16	3.46	3.73	3.49	3.82	7.82	8.17	3.61
8	3.34	3.42	7.71	3.39	3.15	3.09	3.16	3.56	3.73	3.52	3.85	7.71	8.02	3.58
9	3.30	3.40	7.82	3.35	3.14	3.06	3.15	3.45	3.71	3.50	3.84	7.82	8.14	3.56
12	3.29	3.40	7.81	3.34	3.14	3.03	3.10	3.44	3.70	3.49	3.83	7.81	8.12	3.55
13	3.26	3.37	7.72	3.31	3.11	3.00	3.14	3.41	3.68	3.46	3.83	7.73	8.00	3.50
14	3.25	3.41	7.74	3.30	3.09	3.00	3.14	3.40	3.68	3.49	3.83	7.76	8.00	3.50
15	3.26	3.42	7.56	3.30	3.10	3.01	3.14	3.40	3.66	3.49	3.83	7.57	7.85	3.49
16	3.28	3.46	7.81	3.32	3.11	3.03	3.14	3.42	3.69	3.54	3.85	7.82	8.12	3.51
19	3.38	3.52	7.82	3.38	3.19	NQ	3.18	3.52	3.75	3.60	3.88	7.84	8.20	3.65
20	3.38	3.47	7.84	3.37	3.18	3.10	3.17	3.47	3.77	3.59	3.87	7.87	8.24	3.68
21	3.37	3.60	7.80	3.38	3.19	3.09	3.17	3.50	3.79	3.58	3.87	7.85	8.23	3.71
22	3.41	3.58	7.96	3.41	3.23	3.13	3.18	NQ	3.84	3.58	3.85	8.00	8.46	3.76
23	3.43	3.61	8.06	3.44	3.25	3.16	3.18	NQ	3.87	3.61	3.86	8.11	8.56	3.77
27	3.44	3.65	8.23	3.43	3.27	3.17	3.19	3.64	3.89	3.64	3.87	8.27	8.73	3.81
28	3.40	3.67	8.11	3.37	3.23	3.14	3.19	3.60	3.89	3.66	3.87	8.15	8.61	3.74
29	3.38	3.64	8.07	3.34	3.21	3.11	3.16	3.58	3.86	3.63	3.85	8.12	8.55	3.70
30	3.37	3.64	8.14	3.33	3.20	3.10	3.16	3.57	3.84	3.63	3.85	8.18	8.58	3.67
Jan. 3	3.30	3.54	7.84	3.26	3.12	3.04	3.02	3.50	3.74	3.54	3.80	7.90	8.29	3.58
4	3.30	3.55	7.74	3.27	3.12	3.02	3.03	3.52	3.73	3.55	3.80	7.78	8.21	3.61

NQ = no quote. 1/ Dollars per bushel. 2/ March contracts for corn and wheat and January for soybeans, Chicago Board of Trade.
3/ Prices at terminals for #2 yellow corn on a to-arrive basis. 4/ Midpoint of price range bid to farmers at elevators in Central Iowa.
5/ Midpoint of price range bid to farmers at elevators in eastern Colorado. 6/ Prices at elevators for Central and Pee Dee areas of S. C. 7/ Prices at elevators for Midwest origin #2 yellow. Prices for delivery during the first half of November beginning October 28. 8/ Prices at terminals for #2 soft red winter for 30-day delivery. 9/ Prices at terminals for #1 hard red winter.
10/ Prices at terminals for #1 yellow on a to-arrive basis. 11/ Export terminal price for #2 yellow corn and soybeans for prompt or 30-day delivery.
(SN:05:012)

January 6, 1984

Table 12 --Futures and cash prices for corn, wheat and soybeans 1/

Month & date	Futures			Cash										
				Corn						Wheat		Soybeans	Gulf Export, Barge	
	Corn 2/	Wheat 2/	Soybeans 2/	Chicago 3/	Omaha 3/	Iowa 4/	E.Colo.-W.Kan.5/	Columbia S.C. 6/	Portland 7/	Chicago 8/	Kansas City 9/	Chicago 10/	Soybeans 11/	Corn 11/
1982														
Jan. 15	NQ	NQ	NQ	2.57	NQ	2.26	2.46	NQ	3.32	3.79	4.41	6.32	6.82	3.04
Feb. 16	NQ	NQ	NQ	2.50	2.44	2.28	2.57	2.64	3.37	3.49	4.26	6.09	6.46	2.78
Mar. 15	NQ	NQ	NQ	2.59	2.45	2.31	2.47	2.54	3.42	3.42	4.25	6.16	6.54	2.86
Apr. 15	NQ	NQ	NQ	2.71	2.62	2.46	2.58	2.78	3.50	3.77	4.30	6.43	6.66	3.00
May 14	NQ	NQ	NQ	2.72	2.64	NQ	NQ	2.82	3.66	3.42	4.27	6.63	6.88	2.94
June 15	NQ	NQ	NQ	2.74	2.66	2.50	2.77	2.80	3.64	3.35	4.28	6.33	6.51	2.94
July 15	NQ	NQ	NQ	2.71	2.60	2.45	2.86	2.70	3.49	3.37	3.70	6.32	6.56	2.91
Aug. 16	NQ	NQ	NQ	2.20	2.08	2.00	2.41	2.21	3.10	3.29	3.63	5.45	5.70	2.48
Sept.15	2.68	NQ	6.16	2.10	2.25	2.08	2.42	2.15	3.23	3.22	3.78	5.43	5.74	2.50
Oct. 15	2.66	3.67	5.82	2.06	2.08	1.84	2.23	2.06	3.00	2.95	3.61	5.28	5.44	2.28
Nov. 15	2.64	3.78	5.88	2.34	2.36	2.18	2.49	2.32	NQ	3.36	3.83	5.58	5.91	2.60
Dec. 15	2.70	3.65	5.89	2.41	2.36	2.20	2.62	2.42	NQ	3.15	3.96	5.63	5.99	2.69
1983														
Jan. 14	2.84	3.86	6.18	2.52	2.42	2.25	2.66	NQ	NQ	3.42	4.01	5.93	6.10	2.67
Feb. 15	2.92	3.92	6.39	2.81	2.65	2.52	2.75	2.79	NQ	3.48	4.10	5.99	6.17	3.00
Mar. 15	2.92	3.66	6.19	2.86	2.75	2.62	2.84	2.90	3.68	3.25	4.16	5.82	6.05	3.07
Apr. 15	2.99	3.85	6.62	3.16	3.10	2.96	3.14	3.16	3.98	3.49	4.24	6.25	6.42	3.39
May 16	2.89	3.78	6.58	3.09	3.02	2.90	3.13	3.24	3.97	3.56	3.99	6.31	6.49	3.32
June 15	2.74	3.69	6.11	3.20	3.09	3.00	3.22	3.36	4.08	8.53	3.98	5.96	6.16	3.41
July 15	2.96	3.70	6.77	3.24	3.17	3.08	3.42	3.24	4.05	3.57	3.68	6.44	6.65	3.52
Aug. 15	3.66	4.13	9.05	3.72	3.56	3.53	3.28	3.68	4.40	3.80	3.95	8.78	9.06	4.06
Sept.15	3.48	3.80	8.58	3.38	3.20	3.07	3.27	3.58	4.16	3.51	3.87	8.40	8.60	3.63
Oct. 14	3.54	3.71	8.88	3.51	3.32	3.26	3.16	3.72	NQ	3.61	3.91	8.81	9.09	3.82
Nov. 1	3.47	3.56	8.23	3.47	3.23	3.18	3.08	3.64	3.86	3.48	3.81	8.26	8.62	3.73
2	3.51	3.58	8.43	3.51	3.26	3.22	3.10	3.68	3.89	3.50	3.83	8.46	8.79	3.77
3	3.51	3.58	8.54	3.50	3.26	3.18	3.14	3.69	3.87	3.49	3.82	8.57	8.88	3.75
4	3.54	3.58	8.57	3.51	3.29	3.21	3.16	3.72	3.91	3.50	3.82	8.60	8.92	3.78
7	3.58	3.60	8.58	3.55	3.30	3.24	3.15	3.76	NA	3.52	3.84	8.60	8.92	3.82
8	3.57	3.58	8.50	3.55	3.30	3.25	3.15	3.74	3.92	3.50	3.84	8.52	8.88	3.82
9	3.58	3.58	8.53	3.57	3.30	3.26	3.15	3.76	3.91	3.50	3.84	8.62	8.90	3.82
10	3.59	3.56	8.52	3.55	3.30	3.30	3.18	3.76	3.93	3.48	3.82	8.52	8.90	3.84
11	3.57	3.49	8.28	3.54	NA	NA	NA	NA	NA	3.41	3.80	8.28	8.68	3.81
14	3.56	3.46	8.26	3.54	3.26	3.26	3.21	3.73	3.86	3.37	3.83	8.23	8.63	3.80
15	3.58	3.47	8.19	3.57	3.29	3.29	3.21	3.73	3.88	3.38	3.81	8.14	8.52	3.84
16	3.52	3.40	7.89	3.50	3.24	3.22	3.20	3.66	3.82	3.32	3.79	7.96	8.24	3.76
17	3.52	3.40	8.04	3.53	3.26	3.23	3.21	3.66	3.85	3.31	3.79	7.97	8.25	3.77
18	3.47	3.36	7.82	3.48	3.20	3.20	3.20	3.62	3.81	3.28	3.79	7.73	8.02	3.70
21	3.42	3.33	7.65	3.43	3.18	3.16	3.20	3.56	3.78	3.33	3.81	7.56	7.85	3.66
22	3.36	3.32	7.78	3.38	3.14	3.10	3.20	3.52	3.74	3.32	3.82	7.64	7.96	3.59
23	3.35	3.39	7.82	3.38	3.14	3.11	3.20	3.50	3.72	3.39	3.82	7.73	8.04	3.60
25	3.40	3.42	7.95	3.42	3.16	3.11	3.23	3.55	3.77	3.42	3.83	7.86	8.18	3.66
28	3.43	3.38	7.94	3.47	3.22	3.18	3.22	3.58	3.81	3.38	3.83	7.88	8.18	3.70
29	3.42	3.39	8.06	3.46	3.22	3.19	3.21	3.56	3.80	3.41	3.80	8.00	8.31	3.70
30	3.40	3.43	7.96	3.43	3.19	3.16	3.21	3.56	3.78	3.48	3.79	7.90	8.24	3.67

NQ = no quote. 1/ Dollars per bushel. 2/ December contracts for corn and wheat and January for soybeans, Chicago Board of Trade. 3/ Prices at terminals for #2 yellow corn on a to-arrive basis. 4/ Midpoint of price range bid to farmers at elevators in Central Iowa. 5/ Midpoint of price range bid to farmers at elevators in Eastern Colorado and Western Kansas. 6/ Prices at elevators for Central and Pee Dee areas of S. C. 7/ Prices at elevators for Midwest origin #2 yellow. Prices for delivery during the first half of November beginning October 28. 8/ Prices at terminals for #2 soft red winter for 30-day delivery. 9/ Prices at terminals for #1 hard red winter. 10/ Prices at terminals for #1 yellow on a to-arrive basis. 11/ Export terminal price for #2 yellow corn and soybeans for prompt or 30-day delivery.

(SM:DS:#12)

December 1, 1983

Table 13.--Futures and cash prices for corn, wheat and soybeans 1/

Month & date	Futures			Cash											
				Corn						Wheat		Soybeans: Gulf Export, Barge			
	Corn 2/	Wheat 2/	Soybeans 2/	Chicago 3/	Omaha 3/	Iowa 4/	E.Colo.-W.Kan.5/	Columbia S.C. 6/	Portland 7/	Chicago 8/	Kansas City 9/	Chicago 10/	Soybeans 11/	Corn 11/
1982														
Jan. 15	NQ	NQ	NQ	2.57	NQ	2.26	2.46	NQ	3.32	3.79	4.41	6.32	6.82	3.04
Feb. 16	NQ	NQ	NQ	2.50	2.44	2.28	2.57	2.64	3.37	3.49	4.26	6.09	6.46	2.78
Mar. 15	NQ	NQ	NQ	2.59	2.45	2.31	2.47	2.54	3.42	3.42	4.25	6.16	6.58	2.86
Apr. 15	NQ	NQ	NQ	2.71	2.62	2.46	2.58	2.78	3.50	3.77	4.30	6.43	6.66	3.00
May 18	NQ	NQ	NQ	2.72	2.64	NQ	NQ	2.82	3.66	3.42	4.27	6.63	6.88	2.94
June 15	NQ	NQ	NQ	2.74	2.66	2.50	2.77	2.80	3.64	3.35	4.28	6.33	6.51	2.94
July 15	NQ	NQ	NQ	2.71	2.60	2.45	2.86	2.70	3.49	3.37	3.70	6.32	6.56	2.91
Aug. 16	NQ	NQ	NQ	2.20	2.08	2.00	2.41	2.21	3.10	3.29	3.63	5.95	5.70	2.88
Sept.15	2.68	NQ	6.16	2.10	2.25	2.08	2.42	2.15	3.23	3.22	3.78	5.83	5.74	2.50
Oct. 15	2.66	3.67	5.82	2.06	2.08	1.84	2.23	2.06	3.00	2.95	3.61	5.28	5.48	2.28
Nov. 15	2.64	3.78	5.88	2.34	2.36	2.18	2.49	2.32	NQ	3.36	3.83	5.58	5.91	2.60
Dec. 15	2.70	3.85	5.89	2.81	2.36	2.20	2.62	2.42	NQ	3.15	3.96	5.63	5.99	2.69
1983														
Jan. 14	2.84	3.86	6.18	2.52	2.42	2.25	2.66	NQ	NQ	3.42	4.01	5.93	6.10	2.67
Feb. 15	2.92	3.92	6.39	2.81	2.65	2.52	2.75	2.79	NQ	3.48	4.10	5.99	6.17	3.00
Mar. 15	2.92	3.86	6.19	2.86	2.75	2.62	2.84	2.90	3.68	3.25	4.16	5.82	6.05	3.07
Apr. 15	2.99	3.85	6.62	3.16	3.10	2.96	3.14	3.16	3.98	3.49	4.24	6.25	6.42	3.39
May 16	2.89	3.78	6.58	3.09	3.02	2.90	3.13	3.24	3.97	3.56	3.99	6.31	6.49	3.32
June 15	2.79	3.69	6.11	3.20	3.09	3.00	3.22	3.36	4.02	3.53	3.98	5.96	6.16	3.41
July 15	2.96	3.70	6.77	3.24	3.17	3.08	3.42	3.24	4.05	3.57	3.88	6.48	6.65	3.52
Aug. 15	3.66	4.13	9.05	3.72	3.56	3.53	3.28	3.68	4.40	3.80	3.95	6.78	9.06	4.06
Sept.15	3.48	3.80	8.58	3.38	3.20	3.18	3.37	3.58	4.16	3.51	3.87	8.40	8.80	3.83
Oct. 3	3.53	3.70	8.58	3.46	3.26	3.28	3.20	3.68	NQ	3.60	3.80	8.46	8.76	3.77
4	3.47	3.66	8.29	3.37	3.22	3.24	3.16	3.62	NQ	3.56	3.79	8.20	8.47	3.73
5	3.51	3.68	8.39	3.42	3.27	3.30	3.18	3.66	NQ	3.58	3.82	8.31	8.59	3.77
6	3.52	3.72	8.60	3.44	3.28	3.30	3.18	3.68	NQ	3.62	3.85	8.53	8.81	3.78
7	3.49	3.70	8.46	3.41	3.24	3.27	3.16	3.64	NQ	3.60	3.81	8.38	8.68	3.75
10	3.48	3.66	8.51	3.41	NQ	3.25	NQ	3.63	NQ	3.56	3.84	8.44	8.75	3.74
11	3.50	3.66	8.50	3.47	3.28	3.26	3.16	3.68	NQ	3.56	3.86	8.43	8.73	3.78
12	3.49	3.66	8.36	3.46	3.28	3.27	3.16	3.64	NQ	3.56	3.90	8.28	8.58	3.79
13	3.58	3.69	8.66	3.55	3.36	3.32	3.18	3.76	NQ	3.59	3.91	8.58	8.86	3.86
14	3.54	3.71	8.88	3.51	3.32	3.26	3.16	3.72	NQ	3.61	3.91	8.81	9.09	3.82
17	3.50	3.70	8.80	3.40	3.27	3.20	3.15	3.68	NQ	3.60	3.90	8.72	9.02	3.78
18	3.47	3.72	8.70	3.41	3.22	3.18	3.14	3.64	NQ	3.62	3.89	8.64	8.98	3.73
19	3.43	3.69	8.44	3.37	3.18	3.12	3.12	3.60	NQ	3.59	3.87	8.39	8.77	3.70
20	3.38	3.61	8.19	3.33	3.10	3.05	3.10	3.54	NQ	3.52	3.80	8.14	8.52	3.66
21	3.41	3.64	8.32	3.37	3.14	3.08	3.12	3.58	NQ	3.55	3.83	8.28	8.63	3.69
24	3.41	3.62	8.23	3.36	3.16	3.12	3.17	3.58	NQ	3.54	3.82	8.18	8.54	3.69
25	3.48	3.65	8.40	3.47	3.22	3.18	3.13	3.66	NQ	3.57	3.85	8.38	8.73	3.76
26	3.42	3.57	8.10	3.42	3.20	3.14	3.12	3.58	NQ	3.48	3.79	8.08	8.45	3.72
27	3.46	3.57	8.24	3.46	3.24	3.18	3.13	3.63	NQ	3.49	3.79	8.26	8.58	3.74
28	3.48	3.59	8.26	3.48	3.27	3.19	3.14	3.66	NQ	3.50	3.80	8.28	8.61	3.78
30	3.45	3.54	8.12	3.45	3.22	3.16	3.08	3.62	NQ	3.46	3.80	8.14	8.48	3.72
Nov. 1	3.47	3.56	8.23	3.47	3.23	3.18	3.08	3.64	3.86	3.48	3.81	8.26	8.62	3.73
2	3.51	3.58	8.43	3.51	3.26	3.22	3.10	3.68	3.89	3.50	3.83	8.46	8.79	3.77

NQ = no quote. 1/ Dollars per bushel. 2/ December contracts for corn and wheat and November for soybeans, Chicago Board of Trade. 3/ Prices at terminals for #2 yellow corn on a to-arrive basis. 4/ Midpoint of price range bid to farmers at elevators in Central Iowa. 5/ Midpoint of price range bid to farmers at elevators in Eastern Colorado and Western Kansas. 6/ Prices at elevators for Central and Pee Dee areas of S. C. 7/ Prices at elevators for Midwest origin #2 yellow. Prices for delivery during the first half of November beginning October 28. 8/ Prices at terminals for #2 soft red winter for 30-day delivery. 9/ Prices at terminals for #1 hard red winter. 10/ Prices at terminals for #1 yellow on a to-arrive basis. 11/ Export terminal price for #2 yellow corn and soybeans for prompt or 30-day delivery.

(SM:DS:87)

November 3, 1983

Table 14.--Futures and cash prices for corn, wheat and soybeans 1/

Month & date	Futures			Cash									
				Corn						Wheat		Soybeans	Gulf Export, Barge
	Corn 2/	Wheat 3/	Soybeans 2/	Chicago 3/	Omaha 3/	Iowa 4/	E.Colo.-W.Kan.5/	Columbia S.C. 6/	Portland 7/	Chicago 8/	Kansas City 9/	Chicago 10/	Soybeans 11/	Corn 11/
1982														
Jan. 15	NQ	NQ	NQ	2.57	NQ	2.26	2.46	NQ	3.32	3.79	4.41	6.32	6.82	3.04
Feb. 16	NQ	NQ	NQ	2.50	2.44	2.28	2.57	2.64	3.37	3.49	4.26	6.09	6.46	2.78
Mar. 15	NQ	NQ	NQ	2.59	2.45	2.31	2.47	2.54	3.42	3.42	4.25	6.16	6.54	2.86
Apr. 15	NQ	NQ	NQ	2.71	2.82	2.46	2.58	2.78	3.50	3.77	4.30	6.43	6.66	3.00
May 14	NQ	NQ	NQ	2.72	2.64	NQ	NQ	2.82	3.66	3.42	4.27	6.63	6.88	2.94
June 15	NQ	NQ	NQ	2.74	2.66	2.50	2.77	2.80	3.64	3.35	4.28	6.33	6.51	2.94
July 15	NQ	NQ	NQ	2.71	2.60	2.45	2.86	2.70	3.49	3.37	3.70	6.32	6.56	2.91
Aug. 16	2.64	3.88	6.08	2.20	2.08	2.00	2.41	2.21	3.10	3.29	3.63	5.45	5.70	2.48
Sept.15	2.62	3.87	6.16	2.10	2.25	2.08	2.42	2.15	3.23	3.22	3.78	5.43	5.74	2.50
Oct. 15	2.59	3.51	5.82	2.06	2.08	1.84	2.23	2.06	3.00	2.95	3.61	5.28	5.44	2.28
Nov. 15	2.57	3.64	5.90	2.34	2.36	2.18	2.49	2.32	NQ	3.36	3.83	5.58	5.91	2.60
Dec. 15	2.62	3.50	5.88	2.41	2.36	2.20	2.62	2.42	NQ	3.15	3.96	5.63	5.99	2.69
1983														
Jan. 14	2.77	3.70	6.16	2.52	2.42	2.25	2.66	NQ	NQ	3.42	4.01	5.93	6.10	2.67
Feb. 15	2.93	3.76	6.30	2.81	2.65	2.52	2.75	2.79	NQ	3.48	4.10	5.99	6.17	3.00
Mar. 15	2.90	3.51	6.08	2.86	2.75	2.62	2.84	2.90	3.68	3.25	4.16	5.82	6.05	3.07
Apr. 15	3.07	3.70	6.50	3.16	3.10	2.96	3.14	3.16	3.98	3.49	4.24	6.25	6.42	3.39
May 16	2.95	3.63	6.46	3.09	3.02	2.90	3.13	3.24	3.97	3.56	3.99	6.31	6.49	3.32
June 15	2.90	3.56	6.00	3.20	3.09	3.00	3.22	3.36	4.02	3.53	3.98	5.96	6.16	3.41
July 15	3.10	3.54	6.56	3.24	3.17	3.08	3.42	3.24	4.05	3.57	3.68	6.44	6.65	3.52
Aug. 15	3.68	3.96	8.87	3.72	3.56	3.53	3.28	3.68	4.40	3.80	3.95	8.78	9.06	4.06
Sept. 1	3.51	3.84	8.70	3.51	3.32	3.26	3.32	3.59	4.30	3.69	3.97	8.62	8.76	3.69
2	3.58	3.86	8.99	3.56	3.38	3.30	3.24	3.64	4.31	3.72	4.00	8.92	9.06	3.75
6	3.65	3.86	9.19	3.55	3.44	3.35	3.32	3.70	4.40	3.72	3.99	9.12	9.26	3.84
7	3.65	3.82	9.20	3.64	3.42	3.37	3.32	3.69	4.40	3.68	3.96	9.10	9.27	3.84
8	3.65	3.85	9.18	3.65	3.44	3.38	3.32	3.78	4.40	3.73	3.99	9.09	9.26	3.84
9	3.67	3.87	9.41	3.61	3.46	3.40	3.32	3.78	4.42	3.74	4.03	9.35	9.46	3.87
12	3.62	3.80	9.30	3.58	3.39	3.34	3.28	3.78	4.34	3.60	3.99	9.26	9.38	3.84
13	3.55	3.70	9.06	3.54	3.33	3.26	3.31	3.70	4.26	3.59	3.98	8.96	9.08	3.76
14	3.52	3.66	8.82	3.51	3.29	3.25	3.27	3.66	4.23	3.54	3.91	8.72	8.88	3.73
15	3.48	3.80	8.58	3.38	3.20	3.18	3.27	3.58	4.16	3.51	3.87	8.40	8.80	3.63
16	3.52	3.83	8.73	3.41	3.25	3.21	3.27	3.64	4.18	3.53	3.88	8.57	8.77	3.68
19	3.61	3.87	9.01	3.49	3.30	3.30	3.27	3.68	4.25	3.57	3.91	8.86	9.04	3.77
20	3.59	3.84	8.99	3.52	3.30	3.30	3.27	3.66	4.22	3.61	3.88	8.83	9.04	3.76
21	3.69	3.90	9.29	3.61	3.41	3.38	3.27	3.73	4.32	3.68	3.93	9.14	9.34	3.86
22	3.60	3.82	9.23	3.53	3.31	3.30	3.27	3.68	4.20	3.60	3.86	9.08	9.28	3.76
23	3.54	3.74	9.09	3.43	3.25	3.22	3.24	3.64	4.14	3.52	3.80	8.96	9.16	3.72
26	3.49	3.74	8.79	3.40	3.20	3.21	3.27	3.60	NQ	3.54	3.79	8.62	8.89	3.70
27	3.54	3.76	8.96	3.48	3.25	3.28	3.24	3.64	4.01	3.58	3.82	8.83	9.06	3.78
28	3.48	3.71	8.68	3.44	3.18	3.24	3.21	3.59	NQ	3.56	3.81	8.56	8.82	3.64

NQ = no quote. 1/ Dollars per bushel. 2/ December contracts for corn and wheat and November for soybeans, Chicago Board of Trade.
3/ Prices at terminals for #2 yellow corn on a to-arrive basis. 4/ Midpoint of price range bid to farmers at elevators in Central Iowa.
5/ Midpoint of price range bid to farmers at elevators in Eastern Colorado and Western Kansas. 6/ Prices at elevators for Central and Pee Dee areas of S. C. 7/ Prices at elevators for Midwest origin #2 yellow. Prices for delivery during the first half of November beginning October 28. 8/ Prices at terminals for #2 soft red winter for 30-day delivery. 9/ Prices at terminals for #1 hard red winter.
10/ Prices at terminals for #1 yellow on a to-arrive basis. 11/ Export terminal price for #2 yellow corn and soybeans for prompt or 30-day delivery.
(SN:D6:87)

September 29, 1983

Table 15 --Futures and cash prices for corn, wheat and soybeans 1/

Month & date	Futures			Cash										
				Corn						Wheat			Soybeans:	Gulf Export, Barge
	Corn	Wheat	Soybeans	Chicago	Omaha	Iowa	E.Colo.-W.Kan.5/	Columbia S.C. 6/	Portland	Chicago	Kansas City 9/		Chicago	Soybeans	Corn
	2/	2/	2/	3/	3/	4/			7/	8/			10/	11/	11/
1982															
Jan. 15	NQ	NQ	NQ	2.57	NQ	2.26	2.46	NQ	3.32	3.79	4.41		6.32	5.82	3.04
Feb. 16	NQ	NQ	NQ	2.50	2.44	2.28	2.57	2.64	3.37	3.49	4.26		6.09	6.46	2.78
Mar. 15	NQ	NQ	NQ	2.59	2.45	2.31	2.47	2.54	3.42	3.42	4.25		6.16	6.54	2.86
Apr. 15	NQ	NQ	NQ	2.71	2.62	2.46	2.58	2.78	3.50	3.77	4.30		6.43	6.66	3.00
May 14	NQ	NQ	NQ	2.72	2.64	NQ	NQ	2.82	3.66	3.42	4.27		6.63	6.88	2.94
June 15	NQ	NQ	7.05	2.74	2.66	2.50	2.77	2.80	3.64	3.35	4.28		6.33	6.51	2.94
July 15	NQ	NQ	6.84	2.71	2.60	2.45	2.86	2.70	3.49	3.37	3.70		6.32	6.56	2.91
Aug. 16	2.64	3.88	6.09	2.20	2.08	2.00	2.41	2.21	3.10	3.29	3.63		5.45	5.70	2.48
Sept.15	2.62	3.87	6.10	2.10	2.25	2.08	2.42	2.15	3.23	3.22	3.78		5.43	5.74	2.50
Oct. 15	2.59	3.51	5.83	2.06	2.08	1.84	2.23	2.06	3.00	2.95	3.61		5.28	5.44	2.28
Nov. 15	2.57	3.64	5.90	2.34	2.36	2.18	2.49	2.32	NQ	3.36	3.83		5.58	5.91	2.60
Dec. 15	2.62	3.50	5.95	2.41	2.36	2.20	2.62	2.42	NQ	3.15	3.96		5.63	5.99	2.69
1983															
Jan. 14	2.77	3.70	6.18	2.52	2.42	2.25	2.66	NQ	NQ	3.42	4.01		5.93	6.10	2.67
Feb. 15	2.93	3.76	6.30	2.81	2.65	2.52	2.75	2.79	NQ	3.48	4.10		5.99	6.17	3.00
Mar. 15	2.90	3.51	6.05	2.86	2.75	2.62	2.84	2.90	3.68	3.25	4.16		5.82	6.05	3.07
Apr. 15	3.07	3.70	6.44	3.16	3.10	2.96	3.14	3.16	3.98	3.49	4.24		6.25	6.42	3.39
May 16	2.95	3.63	6.40	3.09	3.02	2.90	3.13	3.24	3.97	3.56	3.99		6.31	6.49	3.32
June 15	2.90	3.56	5.96	3.20	3.09	3.00	3.22	3.36	4.02	3.53	3.98		5.96	6.16	3.41
July 15	3.10	3.54	6.44	3.24	3.17	3.08	3.42	3.24	4.05	3.57	3.68		6.44	6.55	3.52
Aug. 2	3.34	3.76	7.46	3.42	3.31	3.20	3.21	3.50	4.27	3.70	3.73		7.44	7.62	3.66
3	3.42	3.81	7.73	3.50	3.35	3.30	3.21	3.55	4.26	3.73	3.79		7.68	7.83	3.82
4	3.41	3.78	7.70	3.50	3.29	3.27	3.26	3.54	4.28	3.64	3.79		7.66	7.87	3.81
5	3.50	3.78	7.96	3.57	3.36	3.34	3.21	3.59	4.30	3.65	3.79		7.92	8.16	3.90
8	3.48	3.77	7.85	3.55	3.32	3.34	3.24	3.57	4.36	3.63	3.79		7.81	8.02	3.88
9	3.45	3.75	7.80	3.52	3.32	3.31	3.24	3.54	4.32	3.62	3.80		7.80	8.00	3.85
10	3.55	3.85	8.10	3.62	3.42	3.42	3.28	3.64	4.40	3.71	3.89		8.09	8.28	4.00
11	3.58	3.83	8.36	3.69	3.45	3.44	3.25	3.60	4.40	3.69	3.86		8.33	8.56	4.04
12	3.58	3.82	8.53	3.62	3.46	3.47	3.29	3.65	4.39	3.68	3.84		8.48	8.73	4.01
15	3.68	3.96	8.83	3.72	3.56	3.53	3.28	3.68	4.40	3.80	3.95		8.78	9.06	4.06
16	3.62	3.88	9.07	3.67	3.50	3.47	3.28	3.71	4.43	3.73	3.94		9.00	9.31	3.98
17	3.58	3.90	8.92	3.62	3.44	3.43	3.28	3.66	4.38	3.75	3.96		8.90	9.19	3.92
18	3.50	3.84	8.68	3.50	3.38	3.34	3.28	3.63	4.27	3.68	3.99		8.60	8.86	3.84
19	3.53	3.82	8.38	3.53	3.38	3.36	3.28	3.72	4.31	3.66	3.89		8.20	8.54	3.83
22	3.63	4.02	8.68	3.64	3.49	3.41	3.30	3.73	4.41	3.86	4.06		8.60	8.87	3.87
23	3.66	3.90	8.98	3.66	3.50	3.44	3.30	3.78	4.47	3.74	3.93		8.90	9.17	3.90
24	3.61	3.88	9.20	3.62	3.44	3.40	3.30	3.76	4.42	3.72	3.91		9.12	9.39	3.89
25	3.56	3.88	9.31	3.55	3.46	3.34	3.30	3.66	NQ	3.72	3.89		9.23	9.43	3.84
26	3.60	3.87	9.33	3.60	3.41	3.38	3.30	3.70	4.38	3.72	3.92		9.28	9.48	3.92
29	3.57	3.88	9.04	3.56	3.38	3.34	3.30	3.66	4.34	3.73	3.99		8.99	9.18	3.89
30	3.47	3.78	8.74	3.46	3.26	3.22	3.25	3.56	4.28	3.63	3.88		8.64	8.88	3.77
31	3.56	3.89	9.00	3.56	3.37	3.31	3.32	3.56	4.33	3.74	4.00		8.94	9.10	3.85

NQ = no quote. 1/ Dollars per bushel. 2/ September contracts for corn, wheat and for soybeans, Chicago Board of Trade.
3/ Prices at terminals for #2 yellow corn on a to-arrive basis. 4/ Midpoint of price range bid to farmers at elevators in Central Iowa.
5/ Midpoint of price range bid to farmers at elevators in Eastern Colorado and Western Kansas. 6/ Prices at elevators for Central and Pee Dee areas of S. C. 7/ Prices at elevators for Midwest origin #2 yellow. Prices for delivery during the first half of November beginning October 28. 8/ Prices at terminals for #2 soft red winter for 30-day delivery. 9/ Prices at terminals for #1 hard red winter.
10/ Prices at terminals for #1 yellow on a to-arrive basis. 11/ Export terminal price for #2 yellow corn and soybeans for prompt or 30-day delivery.

Senator ABDNOR. Just one question, Mr. Ahalt. Is carryover not a much easier thing to follow than to try to guess the crop?

Mr. AHALT. Well, one of the problems we have with the carryover, Senator, is we get pretty good estimates of commercial stocks, but farm stocks are very hard to survey because the capacity is changing. It is hard for farmers and hard for exporters to estimate the size of stocks on a farm.

Senator ABDNOR. Where did you find this mistake? With the loans now in, have all the farm stocks been taken care of? Is that how you are able to tell that you made that mistake?

Mr. AHALT. Well, once we get our stock up to date, we keep updating our estimates. In fact, we get new grain stocks today which could have some bearing on this situation. We get stock information each quarter during the year.

Senator ABDNOR. When was the last time you were this far off during the last 10 years? Has it happened before?

Mr. AHALT. Senator, this is a humbling experience, forecasting these supplies and prices. We had the opposite situation in the early 1970's. Markets were much stronger than we had expected at that time, and this time we have been caught on the other side.

Senator ABDNOR. Thank you.

Senator JEPSEN. Well, Senator Abdnor has just explored in some detail an area of concern that has met with a great deal of emotion in my State of Iowa, too. The discovery of those additional bushels could not have happened at a worse time for the market. There has been a great deal of criticism because of that. Does the USDA assist the CFTC in its surveillance of commodity exchanges.

Mr. AHALT. We are in regular contact with them, Mr. Chairman. Our people talk with the surveillance people on a regular basis, plus if we see something happening in the market that we do not understand, we call up the surveillance people and we discuss those matters with them, as we have in this case.

Senator JEPSEN. Can you tell me what the USDA considers as a safe, adequate ending stocks for corn and soybeans? Now you project 1984 stocks at 185 million bushels for soybeans and 950 million bushels for corn. Is that below the normal safe amounts?

Mr. AHALT. That is a hard question to answer, Mr. Chairman. Those stock levels are low relative to the amount of disappearance. Those stock levels are the lowest that they have been in more than a decade.

On the other hand, we just came out of a year where they were the highest in absolute terms ever. It is hard to say. I think that we probably need somewhat more carryover of both corn and soybeans than we are projecting this year, but it is hard to put a number down.

Senator JEPSEN. I have been advised that these stocks reflect 3 to 4 weeks supply. And with that in mind, are we going to see an accelerated export program from the USDA this year?

Mr. AHALT. Well, as you know, Mr. Chairman, we are interested in expanding our exports. We believe that it is crucial in improving the agricultural situation. And we believe that we can do that despite the fact that we are expecting to carry out the small carryovers at the end of this crop year because stocks are much larger right now. In fact, corn stocks right now—I have just been handed

as of January 1 are estimated at 4.9 billion bushels. Those will be worked down during the year. And you get to the low-level rate at harvest time. We have ample supply. We would love to see a big surge in demand because it would really help our current situation.

Senator JEPSEN. Well, earlier Chase Econometrics projected low farmer participation in the 1984 program. As a result, there is a better than 8-billion-bushel corn crop in 1984 and they expect that corn prices to drop to $2.68 in 1984. Do you have any reaction to that?

Mr. AHALT. Well, I think that is a bit more pessimistic for 1984 than we would currently expect. I think that farmers are going to—on price, I think that farmers are going to look at the 1984 program carefully and conclude that participation in those programs will be an insurance policy for them. And I think we get better participation perhaps in both the wheat and feed grain program than other people believe.

At the same time, the situation on corn is difficult. We have worked our stocks down, as you pointed out. We need a good crop in 1984. We are hoping that as economies recover, that demand around the world will improve and that we can also have larger supplies than we have been able to in recent years.

Senator JEPSEN. Do you have any comment or reaction to the CFTC's November 1983 surveillance report on the Chicago Board of Trade? Are you familiar with it?

Mr. AHALT. Just generally, Mr. Chairman.

Senator JEPSEN. Are you familiar enough to describe the report in general or react to a statement I will make: Was that report sort of a review and a surveillance report on the report of 1982 and did the 1983 report pretty much go back to the 1982 report that was made on what reactions have been taken?

Mr. AHALT. I could not comment on that, Mr. Chairman.

Senator JEPSEN. Do you have anything in closing that you would like to add?

Mr. AHALT. I would just reiterate the one point, that I believe, Mr. Chairman, that your meeting here is an important one today. I think it behooves all of us in the agriculture community to understand to the best of our ability why markets behave the way they do because I think that is how we can work our way out of these difficult times. I know that many farmers are concerned about the recent developments, but I think the best thing we can do is understand why markets behave the way they do.

Senator JEPSEN. Just by way of the record, when the USDA reports come out, could you in just a brief statement describe the mechanics of how those reports are geared, because they also do not escape considerable comment, concern, and many times some suspect on how they affect the markets.

Could you lay out step by step how that last report was developed?

Mr. AHALT. Yes, sir. That report came out in what the statistical reporting service calls the annual crop summary and that finalizes the crop production figures for the year 1983. That summary reflects several additional and different pieces of information that were available earlier in the year.

Senator JEPSEN. What are they?

Mr. AHALT. For example, we have much more extensive farmer survey. In other words, where we send out our questionnaires to farmers and ask them information about their crop. That information that we have for the January report is several times larger than in terms of respondents in November.

In addition, we have some additional information on the amount of acreages that are available. Because of what we take, for example, in November, the crop particularly in the southern part of the United States where we have double cropping soybeans, the crop is not completely harvested. So the farmer and the technician are not able to determine how much abandonment there will be, nor what the final yields will be.

By January those crops have been complete and we have a more accurate count on the size of the crop. So it means that we have a better fix on how much was actually harvested. It also means that more producers are surveyed that we were able to do in November.

Senator JEPSEN. What is the purpose for those reports? Who do they serve? What value do they serve?

Mr. AHALT. Mr. Chairman, I believe they serve all of agriculture. I think that everyone in this production marketing change has to have accurate information to make intelligent decisions. I know that farmers sometimes believe, Mr. Chairman, that the reports are not in their best favor, that they perhaps work against them.

Senator JEPSEN. It is easy to do.

Mr. AHALT. I know that. I know that, Mr. Chairman. And I also know that it is always easy to remember the ones that bring the market down and forget the ones that contribute to the market going up. It works both ways.

In our estimates over time, we miss on the up and the down side. If we did not have this information for our farmers, I believe that the rest of the industry that is involved in the market would have that information. And I think if it was not provided as a public service, that our farmers would end up being disadvantaged.

Senator JEPSEN. Do you have any comments about the commodity exchanges? Do you see a basic distrust or concern by farmers?

Mr. AHALT. Mr. Chairman, I think over the years farmers have had a lot of questions about the futures market. But I believe that they are also learning more about it. I think the average producer today is becoming increasingly knowledgeable, much more sophisticated about the market. I think that they are working more to try to understand. And I think things are moving in the right direction. I think that the futures market is a useful element in our whole component of commodity intelligence because it helps discover and gives us information about what is going on in the market. I think it is useful.

Senator JEPSEN. Who at the USDA would be tuned in and up to date on the Futures Trading Commission status reports?

Mr. AHALT. Well, our responsibility with them, Mr. Chairman, lies with the intelligence in understanding why markets are behaving the way they are. And we are involved in that aspect and we try to talk to them regularly. But that is about the extent of it. We do not really get involved with the portion with the exception of the one area, and that is we do have a Packyards and Stockyards Administration in the Department of Agriculture and they have

some regulatory responsibilities in the livestock market and they do work closely in that area with the CFTC.

Senator JEPSEN. Well, for the record, I am somewhat puzzled in that structurally the Department of Agriculture represents the Reagan administration with regard to advice in agriculture matters. The Chicago Board of Trade and Commodity Futures Trading Commission reports and surveys on that, which is to some degree, I would think, somebody's concern or they ought to make it their concern if they are going to advise the administration. Not only that, but to keep them up to speed and current. The CFTC is an independent board but it has some responsibility to somebody.

I have a direct interest in the administration. That is why I was asking if there was anybody at the USDA who was specifically designated or assigned to study this so that the sector of agriculture could be made aware of it.

Mr. AHALT. Well, Mr. Chairman, you are right. I think that we have probably been—we should have taken a look at that, and perhaps someone has. I have not done so, but I will take a look at it.

Senator JEPSEN. I would like to know, and I would like to have you please extend to me in writing or you direct somebody to do so, as to who in the USDA is responsible for coordinating and keeping the liaison with and keeping informed of the activities of the Commodity Futures Trading Commission because it certainly has a very dramatic effect and it is related.

Your last forecast brought a dramatic change in the markets of which the Board of Trade may or may not have gotten some blame or credit. In fact, right now I am sure that you are aware that there is some movement regarding futures trading in livestock. Stockmen are very concerned. I would hope that we have the Secretary and others right up on that.

I thank you, very much.

Mr. AHALT. Thank you, Mr. Chairman.

Senator JEPSEN. At this time, I would like to introduce and invite Fowler C. West, a member of the Commodity Futures Trading Commission. Mr. West will be addressing some of the same questions from his end of it.

Welcome. Your written statement will be entered into the record as if read, and you may proceed in any way you so desire.

STATEMENT OF FOWLER C. WEST, COMMISSIONER, COMMODITY FUTURES TRADING COMMISSION, ACCOMPANIED BY PAULA TOSINI, CHIEF ECONOMIST AND DIRECTOR, DIVISION OF ECONOMICS AND EDUCATION; AND JOHN MIELKE, DIRECTOR, MARKET SURVEILLANCE SECTION, DIVISION OF ECONOMICS AND EDUCATION, CHICAGO, ILL.

Mr. WEST. Thank you, Mr. Chairman. At the outset I would like to commend you for these hearings. It is a very important matter. It disturbs me personally when I hear people indicate that farmers do not have a strong trust in the futures market. I come from an agricultural background myself and I worked with the Agricultural Committee on the House side and I know what it is to wrestle with farm programs and to see the disappointments that have come to farmers over the years.

The chairman of our committee, Hon. Susan Phillips, comes from your great State and is very deeply interested in agriculture. Commissioner Heinneman is a farmer himself from Kansas and was the first agriculture producer to be named to the Commission, and Commissioner Bill Ceal who was recently named is an agricultural economist and worked with Capitol Hill over the Senate side.

Mr. Chairman, I would like to thank you for the opportunity to present the views of the Commodity Futures Trading Commission concerning developments in the corn and soybean markets during the latter half of 1983. Chairman Phillips asked me to convey to you her apologies that she is unable to be with you today. She had several prior commitments out of the country that prevented her from attending this hearing. I am, however, delighted to have this opportunity to represent the CFTC before this committee.

With me today are senior members of the Commission's Division of Economics and Education. Ms. Paula Tosini is our newly appointed chief economist and director of that division. John Mielke is the director of the market surveillance section of the division.

The Commission is well aware of the price volatility in the corn and soybean futures markets over the last half of 1983 and of the concern of many producers that these futures markets may not have been reflecting accurately the true supply and demand conditions for those commodities. We welcome this opportunity to discuss these issues with this committee and to respond to any questions that you or the other members of this committee may have.

Before commenting on some of the specific issues relating to the corn and soybean futures markets, I thought it might be helpful to those attending this hearing if I provide a brief overview of the principal functions of the CFTC, particularly those that relate to the supervision of grain and soybean futures trading.

The Commodity Futures Trading Commission is the independent Federal agency charged with regulating all futures trading in the United States. Currently, this includes 11 different futures exchanges and over 90 actively traded futures and options contracts on a wide, and rapidly expanding, array of commodities. In essence, our job is to establish and police a regulatory framework that will assure that futures markets can serve their intended economic purposes by operating fairly and competitively, free of police manipulation and fraud. The existing regulatory framework is increasingly one of Federal oversight of industry self-regulation, including exchange rule enforcement activities and now an industrywide self-regulatory organization called the National Futures Association.

The CFTC has a variety of programs to assure the integrity of futures markets and to protect users of those markets from manipulation, other abusive trading practices, and fraud. These programs include: Market surveillance, contract designation and rule reviews, exchange rule enforcement audits, registration of commodity professionals, financial review of commodity brokerage firms, review of the sales and account management practices of brokerage firms and commodity pool operators, trade practice surveillance.

The Commission also has an enforcement program to investigate potential illegal activities and to institute proceedings against those who are believed to have violated the Commodity Exchange Act. In addition, we have a reparations program through which in-

dividuals who believe they have been defrauded in some way by someone registered with the Commission can seek financial redress.

Perhaps most germane to the issues before us today is the CFTC's market surveillance program. The primary purpose of this program is to assure that futures prices are determined in markets free of manipulation and control. This program is carried out through a comprehensive market surveillance system designed to detect and prevent threats of price manipulation or other major market disruptions caused by abusive trading practices and by the establishment and enforcement of limits on the amount of speculative holdings any one trader, or group of traders acting in concert, may have. A primary tool used in this effort is the CFTC's large trader reporting system through which we identify and monitor the futures positions owned or controlled by individual large traders.

The CFTC's market surveillance staff monitors daily, for all activity futures contracts, the positions of large traders, key futures and cash price relationships, and relevant supply and demand factors to detect evidence of a developing market problem. In addition, traders' positions are reviewed daily, together with pertinent information on any common ownership or control of futures accounts, to assure compliance with speculative position limits.

In executing our market surveillance responsibilities, we should emphasize it is not our role to judge whether futures or cash prices are "too low" or "too high." Our purpose is to preserve a competitive marketplace in which the forces of supply and demand can operate freely to determine price. In that context, we look to the relationship of cash and futures prices more than to the level of prices to determine whether regulatory action is required.

Our staff coordinates its surveillance activities with their exchange counterparts and works with them to resolve any potential market threats that develop. Through weekly briefings in Washington, the Commissioners and senior staff are kept informed of potential problems and significant market developments so we will be prepared to take prompt regulatory action when necessary. Although the Commission has broad and effective emergency powers it can use if the circumstances warrant, we have had to report to those only rarely.

During 1983, beginning in the early summer months, the Commission faced a number of significant market surveillance concerns involving the corn and soybean futures markets on the Chicago Board of Trade. These concerns involved substantial price volatility, complaints of excessive speculation, and concerns about possible price manipulation. The implications of these concerns for the futures markets were potentially very serious and were at all times treated accordingly by the Commission and its surveillance staff.

Last summer's severe drought struck most of the major agricultural production areas of the country. Particularly hard hit were the corn and soybean producting States of the Midwest. The drought combined with USDA acreage reduction programs resulted in a corn crop that was 28 percent lower, according to USDA's latest crop estimates, which were raised from their earlier estimates.

Cash and futures prices reacted immediately to the developing drought. In early July 1983, grain, soybean, soybean meal, and soybean oil prices began a sharp ascent as it became increasingly apparent that major crop losses could result. Between July 1 and August 26, the price of the November soybean futures increased from $6.37¼ to $9.47½ per bushel, or 49 percent, and the price of cash soybeans in central Illinois increased from $5.95 to $9.11, or 53 percent. During that same period, the December corn futures increased from $2.74¾ to $3.71 per bushel (35 percent), and central Illinois corn prices increased from $3.13½ to $3.77 (20 percent). [See charts 1–4.]

After early August, when corn and soybean futures prices had surpassed the $3.60 and $9 per bushel levels, respectively, futures and cash prices became increasingly volatile. For example, after the price of the actively traded November 1983 soybean futures reached $9.25 on August 16, prices declined sharply over the next few trading days to nearly $8.50, and then rose sharply again, briefly surpassing $9.50 on August 25. Corn and soybean futures continued to fluctuate in a wide range through late September, but the upward price trend had ended and a downward trend began. Soybean prices, for example, trended downward until mid-November and generally have been in the range of $7.60 to $8.20 through the end of 1983. [See chart 5.]

The greatest volatility in corn and soybean prices occurred in August and September, when prices were highest. This volatility, however, was not an unusual phenomenon for futures markets. Futures prices, by their very nature, are anticipatory. Futures markets attempt to assimilate immediately all currently available market information to provide contemporaneous values for commodities that will be delivered in specified future months. When major fundamental supply or demand factors for a commodity change significantly, futures prices for that commodity immediately react, seeking to discover the new price levels that must prevail at various future time periods to ration anticipated supplies against anticipated demand. The greater the uncertainty about anticipated supply or demand, the greater will be the volatility of futures prices until a broad market consensus is reached about those fundamental supply-and-demand factors.

The soybean futures market in particular has had a history of considerable price volatility over the past decade. There have been five instances during that period in which large and rapid increases in soybean futures prices were promptly followed by rapid drops in prices. These instances occurred in 1973, 1974, 1977, 1980, and 1983. [See charts 6a–6c.]

The most extreme volatility occurred in 1973, following the entrance of the Soviet Union as a major buyer of U.S. grains and soybeans. In that year soybean prices moved from about $4.25 per bushel in January to $7 in March. After dropping to less than $5.50 by the end of March, soybean futures prices shot up to an unprecedented price of about $13 in June. Over that summer prices dropped to about $6.50, rose to $11.50, and ended the season in November at about $5.50. The corn market behaved similarly during that period.

The extreme soybean price volatility of 1973 was the greatest ever experienced for that commodity. In 1983, soybean prices were less volatile than in 1973, but resembled rather closely price activity of 1974 and 1980. In all three instances, the soybean futures prices advanced from about the level of $5.50 per bushel, reached a high of about $9.50, and finally stabilized at about $7.50 to $8.00. [See charts 6B and 6C.] Comparisons to 1974 and 1980 are particularly interesting because in both years a summer drought reduced soybean production 16 percent and 23 percent, respectively, from the prior year.

For both the corn and soybean markets this past summer and fall, there were great uncertainties—particular about the size and quality of those crops—that were primary causes of the price volatility that was experienced. Traders continuously and closely evaluated weather and crop conditions, particularly rainfall, estimating and reestimating the damage caused by the drought and modifying their trading strategies accordingly. By the time reliable crop estimates were published by USDA and private forecasters in the second week of September 1983, astute traders, according to polls undertaken and published in the media, had already estimated the approximate size of the corn and soybean crops. Consequently, the official USDA published estimates did not provide significant new information to the marketplace, but merely provided corroboration of earlier estimates. For that reason, grain and soybean prices did not rise after the USDA crop report of September 12. Instead prices fell. The beans-in-the-teens price forecasts that were promoted by some analysts were not realized, and many people began to ask why.

Those who have questioned why prices did not increase more than they did may have focused too narrowly on the drastically reduced 1983 U.S. corn and soybean harvests and the low carryover stocks projected for the end of 1983–84 marketing year. A broader examination of other factors affecting those markets, however, provides less reasons to expect higher prices. For example, in the soybean market:

When soybean oil prices moves substantially higher in reaction to the drought, increased use of lower priced edible oils, such as palm oil, eroded the demand for soybean oil.

On November 1, domestic soybean oil inventories were 20 percent higher than 1 year earlier.

Brazil and Argentina, which harvested larger soybean crops earlier in 1983, significantly increased their exports of soybeans and soybean meal, and are expected to expand production significantly again this year, to capitalize on the higher prices caused by the reduced U.S. production.

Many foreign and domestic buyers of U.S. soybeans purchased their requirements early, as soon as the drought became apparent, and then withdrew from the market. Although demand may intensify later this year, supplies at the beginning of the 1983–84 crop year were more than ample to meet short-term demand.

The U.S. dollar has been very strong relative to most foreign currencies, particularly in the past few months. The higher dollar price of U.S. grains and soybeans, combined with the strong dollar, made U.S. commodities much more expensive to foreign buyers.

Exports of soybeans are now projected to decline 21 percent from last year, and exports of soybean oil are expected to drop by one-third.

In summary, when the weakness of demand and the increased competition from substitute commodities and foreign suppliers are considered along with the reduced U.S. crops, the uncertainty that the markets experienced, as evidenced by volatile cash and futures prices, is more understandable.

As this committee is aware, a number of complaints have been aired publicly about the soybean futures market. Most complaints have been voiced about the decline in prices, although some have focused on the general price volatility that occurred. The complaints have generally alleged that a few futures commission merchants have been large sellers of soybean futures, at times possibly exceeding Commission position speculative limits, and have been major contributors toward some of the downward price movements that occurred.

Commission surveillance has focused on factors in the futures market which were associated with corn-and-soybean-price behavior, particularly factors which may have influenced lower price levels since September 1983. This would include any evidence of price manipulation or of violations of the Commission's speculative position limits for soybean and corn futures.

Futures market volume and open interest in corn and soybeans exhibited the typical characteristics of a bull market over the recent period of price volatility. [See table 1.] Monthly trading volume in corn and soybean futures on the Chicago Board of Trade increased significantly from June through August 1983. Soybean trading volume more than doubled from May to August, and corn volume increased nearly 90 percent over the same period. However, from August through December, trading volume in both markets declined along with prices. During December, for example, trading volume in soybeans represented about 63 percent of August levels and in corn about 47 percent.

Monthend open interest show similar patterns. Open interest reflects the total futures contracts at any time that have not been fulfilled by delivery or offset. Monthend open interest for both corn and soybean futures increased substantially after June 1983. In corn, monthend open interest reached a maximum of about 1.2 billion bushels in October and then declined to a little more than 1 billion bushels by the end of December. Similarly, monthend open interest in soybeans reached a level of about 746 million bushels in September before declining to about 603 million bushels at the end of December. The periods of increases in open interest and subsequent declines correspond roughly to the same periods of increases and declines in prices.

Published data from the Commission's monthend report on commitments of large traders classify monthend open interest in two categories, aggregate positions of traders that exceed Commission reporting levels and positions of traders that are below reporting levels. [See tables 2A and 2B.] Based on trader identification reports received by the Commission, reportable positions are further classified as noncommercial—or speculative—holdings and com-

mercial holdings. The reporting levels for corn and soybean futures are set at 500,000 bushels.

These aggregate monthend data suggest that a major source of selling during the fall of 1983 came from traders having no economic interest in falling prices—the longs. [See tables 3 and 4.] During this period traders with net long positions were selling heavily, reducing those positions. This long liquidation was consistent with the view that traders gradually decided that corn and soybean prices had risen further than market forces warranted. Accordingly, they offset their net long positions to realize whatever profits or losses they had sustained. Especially in soybeans, these monthend data indicate that, in aggregate, large speculators did not establish net short positions either before or during the periods of major price declines.

Individual traders are subject to Commission speculative limits of 3 million bushels in any one future or all futures combined separately in the corn and in the soybean markets. This amount is small in relation to the market and in relation to the size of positions normally held by hedgers who are exempt from the limit. For example, at the end of December a position of 3 million bushels represented only about 0.5 percent of the open interest in corn. At such levels, generally we would not expect the actions of a single trader operating within the speculative limits to have any appreciable or sustained price impact. If, however, the price expectations of a large number of such traders coincide, then price effects are probable.

When considering the issue of whether any traders or futures commission merchants may have exceeded the speculative position limit regulations, it is first necessary to understand how those regulations apply. The Commission's speculative position limits in soybean futures apply to the total net positions in soybean futures on any one exchange that are owned or controlled by a single speculative trader or by a group of traders who are acting pursuant to an expressed or implied agreement or understanding.

Several other aspects of those rules also must be borne in mind. First, the speculative limit applies to positions, not to trading. However, since a person at no time can have a net position greater than 3 million bushels, the net position limit provides a check on the amount of trading in one direction a person can do in one day.

Second, the speculative limit applies to individual traders, not to futures commission merchants who may carry positions for several, or a large number, of independent customers. The various speculative customer positions are only aggregated for speculative limit purposes if their accounts are under common ownership or control or if the Commission can prove that the customers are trading according to a common plan.

Third, bona fide hedgers are legally exempt from speculative position limits. Thus, to the extent that a futures commission merchant's customers are hedgers, it is inappropriate to aggregate their positions with the positions of other customers.

Our analysis of individual large trader data during this time period indicates that, except in a few minor instances, no one trader or futures commission merchant owned or controlled speculative net long or short positions greater than the speculative posi-

tion limit in either the corn or soybean futures markets. Still at issue is whether any group of speculative traders acting pursuant to an expressed or implied agreement or understanding violated Commission speculative limits. In general, allegations of this type of trading are difficult to prove. We are, however, continuing our inquiry into this complicated area.

With regard to other allegations concerning the trading of certain futures commission merchants, we can only say that no simple conclusions can be reached from the data examined so far. For example, at various times one or more firms were alleged to have caused major price drops on a number of days through heavy selling. A preliminary review of trading for those days shows that total selling by the named firm in all cases represented less than 10 percent of daily trading volume. If one considers the firm's net sales for the day (that is, its gross buying deducted from its gross selling), its sales were even less significant. It is difficult to find evidence of market dominance from such data.

Over this entire time period, the Commission's surveillance staff was particularly vigilant for indications of price manipulation. We found no evidence that anyone manipulated corn or soybean futures prices, either downward or upward. Each expiring corn and soybean futures has been priced in line with cash markets at the delivery points. In addition, futures prices over this period did not exhibit any unusual relationships to other cash market prices such as central Illinois or eastern Iowa.

During the course of our surveillance, only the liquidation of the July 1983 corn futures presented a potential for a disorderly market and price distortion because of the extremely low level of deliverable stocks and a concentration of large long futures positions that were maintained late into the liquidation of the July futures.

The CFTC staff was concerned that prudent and orderly liquidation was necessary by both longs and shorts, in order to insure an orderly expiration of the July corn future. To this end, the CFTC staff repeatedly contacted both long and short traders beginning in the final weeks of June and continuing through the final trading week to determine what their cash needs or exposure might be, and how they intended to manage their futures positions in view of cash positions.

During June and July, CFTC staff worked closely with the Chicago Board of Trade staff to assess the liquidation of the July corn futures. Frequent contacts were made at both the Commission and staff levels. As early as June 17, the CBT raised the margins for July corn futures and additional increases were made later. On June 21, the CBT sent a letter to each clearing firm holding long or short July futures positions of 5-million bushels or more advising them to act responsibly in reviewing customers' abilities to deliver and advising them of their obligation to maintain an orderly liquidation. Both the CFTC staff and CBT staff engaged in increasingly strong forms of "jawboning" with major traders and brokers. Ultimately, the July corn futures liquidated in a very orderly manner.

In summary, the Commission is giving serious consideration to the various concerns that have been expressed regarding the corn and soybean futures markets. We intensified our surveillance efforts this past summer and fall when the drought significantly re-

duced supplies of those commodities and led to higher and more volatile futures and cash prices. While our review of these markets is not completed, we believe several observations can be made.

First, the magnitude of the price volatility experienced in the latter portion of 1983 was not unprecedented. The soybean futures market in particular has experienced similar, and even greater, volatility at least four other times during the past decade.

Second, we do not believe that the observed trends in corn and soybean futures prices are inconsistent with supply and demand conditions for those commodities. While we are not in the price forecasting business and do not employ sophisticated econometric models for that purpose, as part of our surveillance process we noted some fundamental weaknesses in demand as perceived by traders, particularly from the important export sector, that appear to explain why the initial sharp price increases were not sustained.

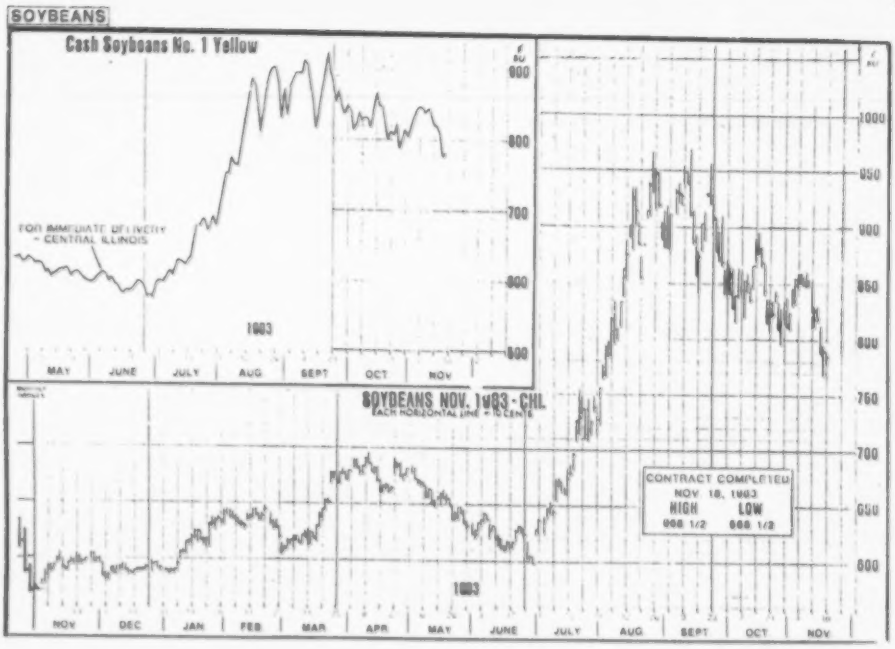
Third, we monitored very closely compliance with speculative position limits in these commodities. We found no violations of those limits by accounts of traders that were under common ownership or common control. We have not yet completed our analysis of the much more complicated question of whether a number of traders who profess to have acted independently may in fact have traded according to an implied agreement or understanding.

Mr. Chairman, the Commission appreciates the opportunity to appear before this committee. We would be pleased to answer any questions. Thank you.

[The charts and tables referred to in Mr. West's statement follow:]

Chart 1

SOYBEANS
1983 DAILY CASH AND FUTURES PRICES*



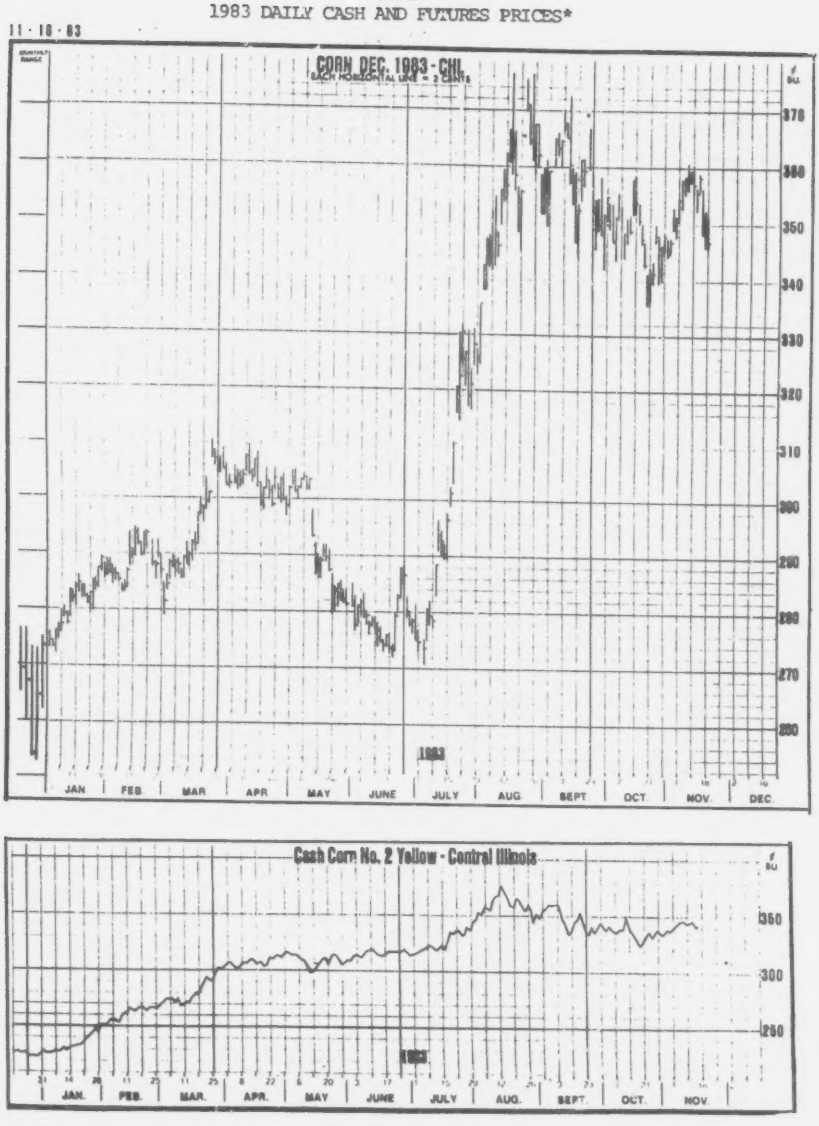
* Daily high, low and settlement prices for the November 1983 soybean future traded on the Chicago Board of Trade and cash prices for No.1 yellow soybeans basis immediate delivery - Central Illinois.

Source: Commodity Research Bureau

Chart 2

CORN

1983 DAILY CASH AND FUTURES PRICES*



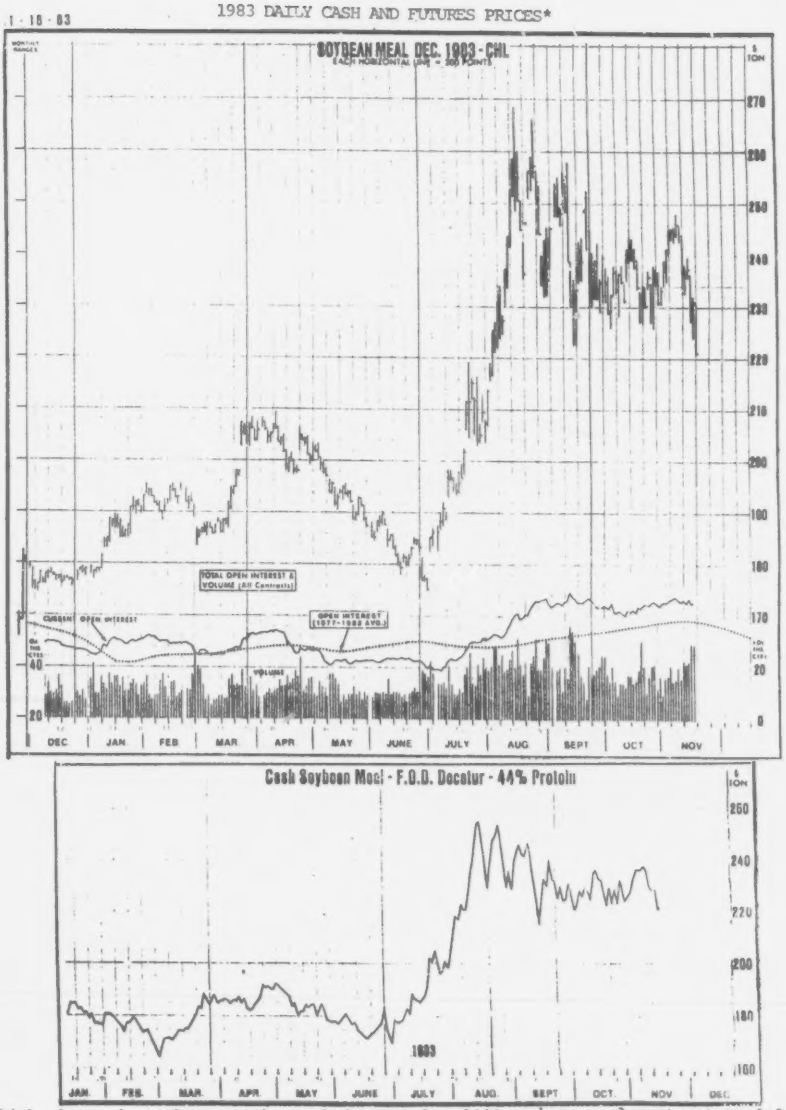
* Daily high, low and settlement prices of the December 1983 corn futures traded on the Chicago Board of Trade and cash prices of No.2 yellow corn - Central Illinois.

Source: Commodity Research Bureau

Chart 3

SOYBEAN MEAL

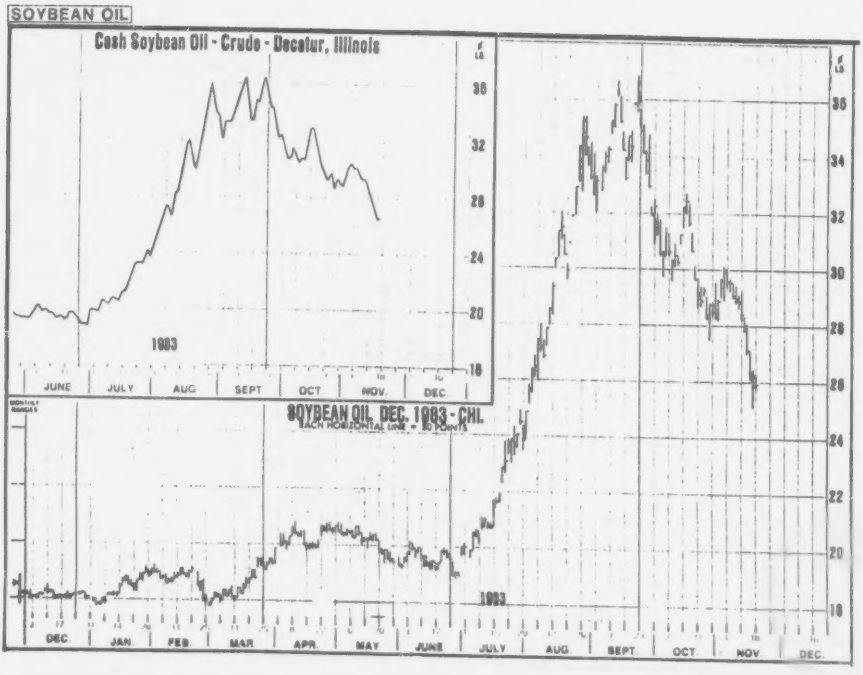
1983 DAILY CASH AND FUTURES PRICES*



*Daily high, low and settlement prices of the December 1983 soybean meal contract traded on the Chicago Board of Trade and cash prices for soybean meal, 44% protein, F.O.B. Decatur.

Chart 4

SOYBEAN OIL
1983 Daily Cash and Futures Prices*



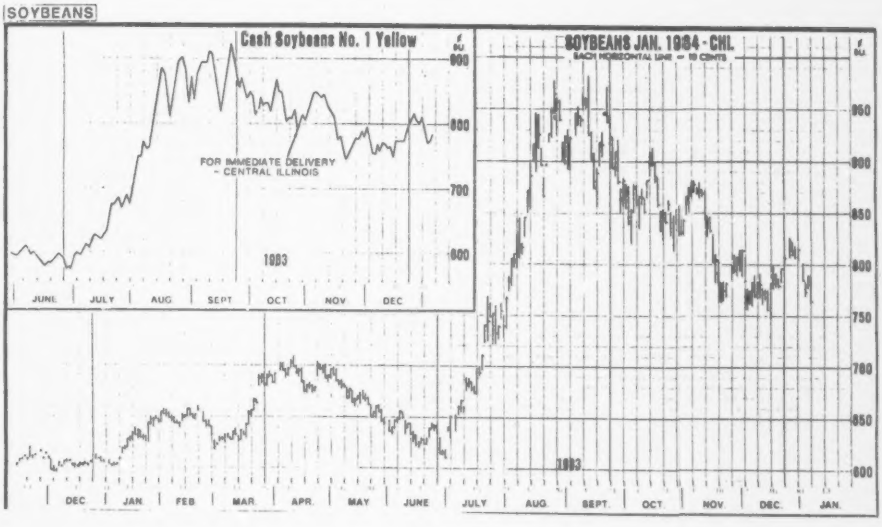
* Daily high, low and settlement prices of the December 1983 soybean oil contract traded on the Chicago Board of Trade and cash prices for crude soybean oil, Decatur, Illinois.

Source: Commodity Research Bureau

Chart 5

SOYBEANS

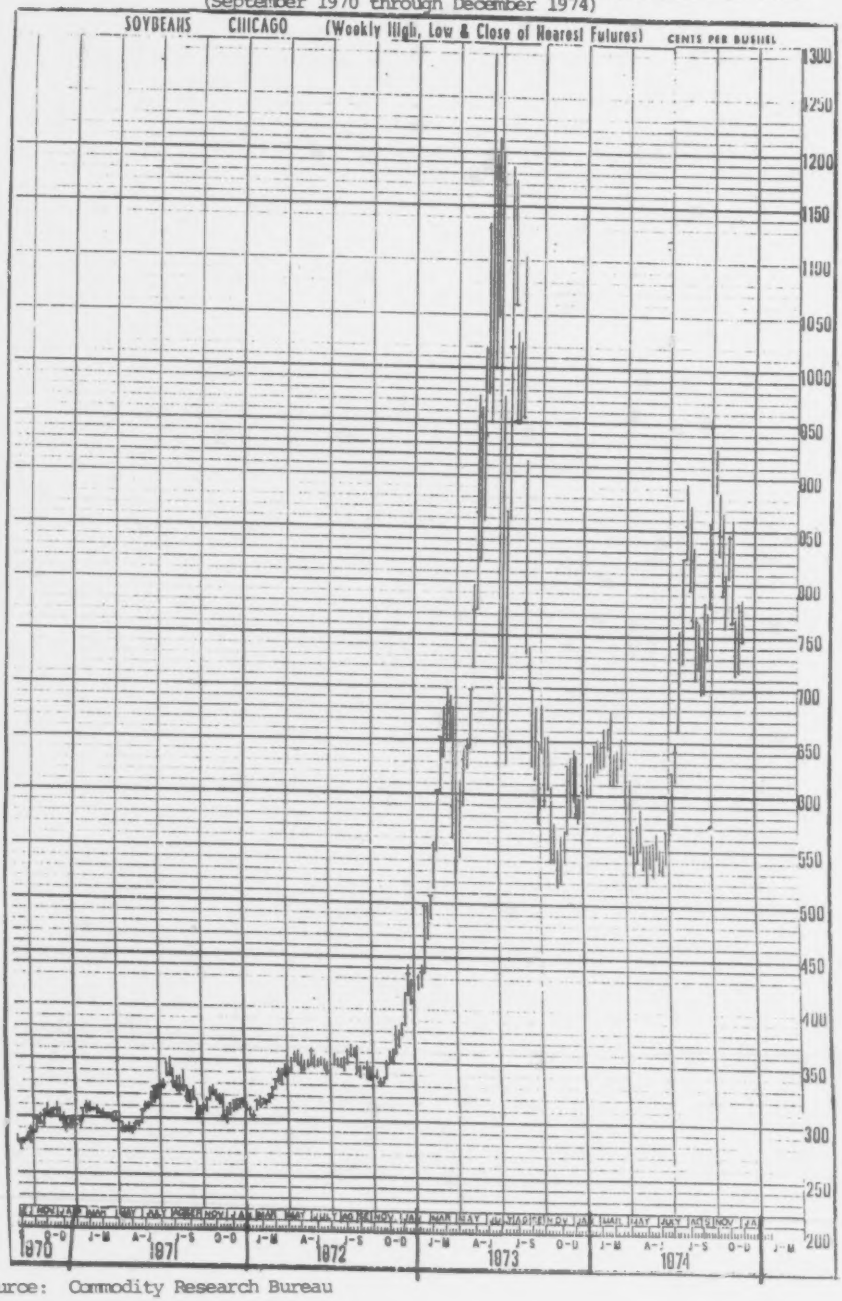
DAILY HIGH, LOW AND SETTLEMENT PRICES OF THE
JANUARY 1983 SOYBEAN FUTURE TRADED ON THE
CHICAGO BOARD OF TRADE



Source: Commodity Research Bureau

Chart 6A

WEEKLY HIGH, LOW AND CLOSE OF THE NEARBY SOYBEAN FUTURE ON THE CHICAGO BOARD OF TRADE
(September 1970 through December 1974)

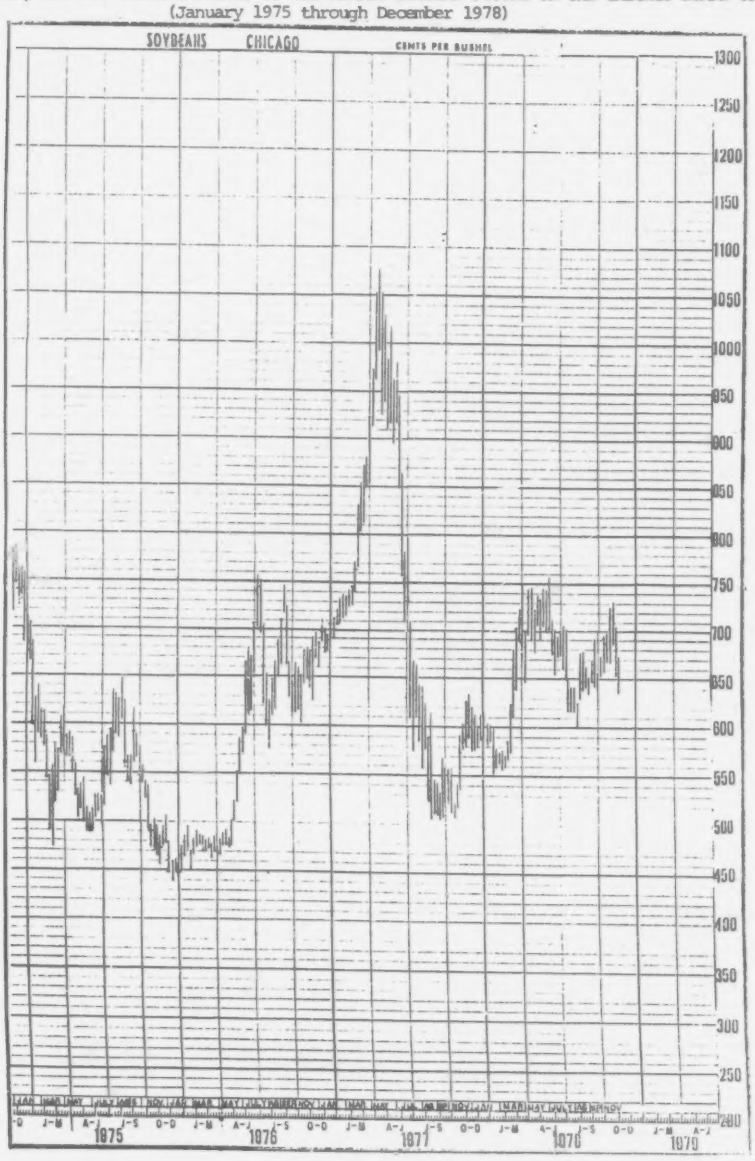


Source: Commodity Research Bureau

Chart 6B

SOYBEANS

WEEKLY HIGH, LOW AND CLOSING PRICES OF THE NEARBY SOYBEAN FUTURE ON THE CHICAGO BOARD OF TRADE
(January 1975 through December 1978)



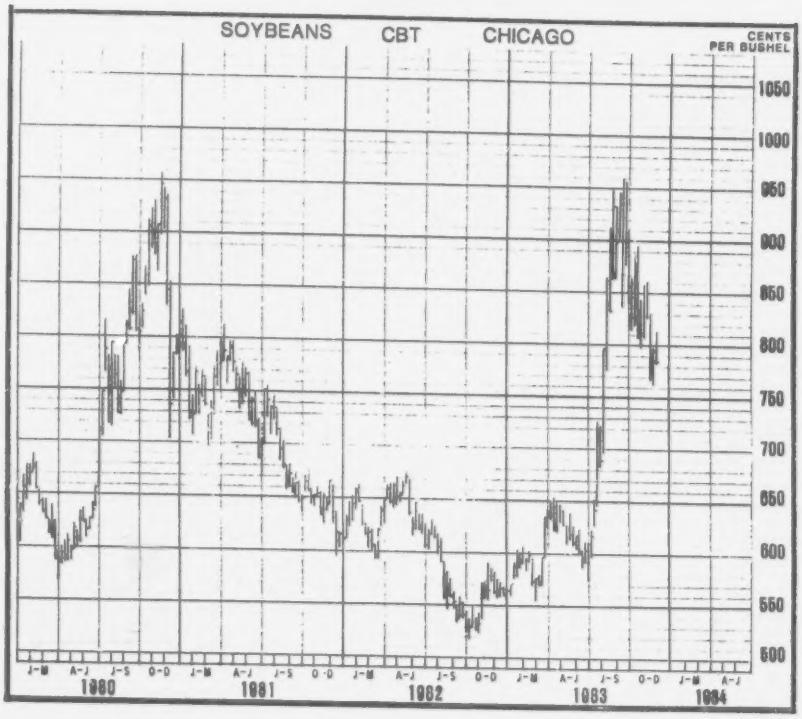
Source:
Commodity
Research
Bureau

Chart 6C

SOYBEANS

WEEKLY HIGH, LOW AND CLOSE OF THE NEARBY SOYBEAN FUTURE TRADED ON THE CHICAGO BOARD OF TRADE

(January 1980 through December 1983)



Source: Commodity Research Bureau

Table 1

MONTHEND OPEN INTEREST
(1,000 Bushels)

1983	CBT Corn	CBT Soybeans
Jan	776,910	465,280
Feb	778,475	413,895
Mar	872,525	485,695
Apr	832,430	507,490
May	760,035	428,515
Jun	727,240	401,245
Jul	792,465	547,505
Aug	1,127,050	714,275
Sep	1,134,385	745,720
Oct	1,163,445	684,085
Nov	1,138,005	648,205
Dec	1,062,110	603,235

MONTHLY VOLUME OF TRADING
(1,000 Bushels)

1983	CBT Corn	CBT Soybeans
Jan	3,638,170	3,942,330
Feb	4,363,125	3,820,000
Mar	5,355,475	4,247,195
Apr	4,439,575	4,375,185
May	3,943,240	4,258,850
Jun	4,510,510	4,408,820
Jul	5,627,205	6,224,410
Aug	7,430,865	8,799,485
Sep	5,882,160	7,851,800
Oct	5,179,840	8,071,110
Nov	5,734,290	6,792,940
Dec	3,518,425	5,609,495

Table 2A

SOYBEANS -- CHICAGO BOARD OF TARDE

COMMITMENTS OF TRADERS IN ALL FUTURES COMBINED

Monthend Date	TOTAL Open Interest	REPORTABLE POSITIONS: Non-Commercial: Long or Short Only: Long	Long or Short Only: Short	Non-Commercial: Long or Short (Spreading): Long	Non-Commercial: Long or Short (Spreading): Short	Commercial: Long	Commercial: Short	Total: Long	Total: Short	NONREPORTABLE POSITIONS: Long	NONREPORTABLE POSITIONS: Short
1983		(Thousand Bushels)									
Jan	465,280	60,415	14,960	21,100	21,100	131,275	277,150	212,790	313,210	252,490	152,070
Feb	413,895	21,680	31,685	38,390	38,390	136,295	188,685	196,365	258,760	217,530	155,135
Mar	485,695	75,320	12,620	24,630	24,630	118,615	269,485	218,565	306,735	267,130	178,960
Apr	507,490	61,945	22,715	45,745	45,745	108,695	271,675	216,385	340,135	291,105	167,355
May	428,515	15,455	32,800	26,920	26,920	115,535	202,620	157,910	262,340	270,605	166,175
Jun	401,245	19,385	29,365	35,550	35,550	124,530	192,325	179,465	257,240	221,780	144,005
Jul	547,505	83,320	21,635	38,400	38,400	144,170	341,965	265,890	402,000	281,615	145,505
Aug	714,275	99,065	24,180	46,680	46,680	191,625	408,980	337,370	479,840	376,905	234,435
Sep	745,720	99,975	30,095	56,935	56,935	230,640	389,500	387,550	476,530	358,170	269,190
Oct	684,085	58,860	28,680	67,020	67,020	242,960	329,810	368,840	425,510	315,245	258,575
Nov	648,205	34,265	31,580	43,105	43,105	252,435	345,200	329,805	419,885	318,400	228,320
Dec	603,235	57,480	9,175	56,485	56,485	210,560	319,395	324,525	385,055	278,710	218,180

Table 2B

CORN -- CHICAGO BOARD OF TARDE

COMMITMENTS OF TRADERS IN ALL FUTURES COMBINED

Monthend Date	TOTAL Open Interest	REPORTABLE POSITIONS: Non-Commercial: Long or Short Only: Long	Long or Short Only: Short	Non-Commercial: Long or Short (Spreading): Long	Non-Commercial: Long or Short (Spreading): Short	Commercial: Long	Commercial: Short	Total: Long	Total: Short	NONREPORTABLE POSITIONS: Long	NONREPORTABLE POSITIONS: Short
1983		(Thousand Bushels)									
Jan	776,910	81,530	18,410	26,875	26,875	335,510	431,840	443,915	477,125	332,995	299,785
Feb	778,475	88,665	19,785	35,440	35,440	348,770	391,230	472,875	446,455	305,600	332,020
Mar	872,525	79,985	25,800	26,125	26,125	354,615	478,310	460,725	530,235	411,800	342,290
Apr	832,430	50,240	21,395	47,360	47,360	352,140	400,885	449,740	469,640	382,690	362,790
May	760,035	16,855	43,865	32,135	32,135	393,440	314,805	442,430	390,805	317,605	369,230
Jun	727,240	35,285	27,300	26,150	26,150	381,865	362,570	443,300	416,020	283,940	311,220
Jul	792,465	71,335	22,280	14,720	14,720	340,055	412,435	426,110	449,435	366,355	343,030
Aug	1,127,050	89,405	24,295	40,110	40,110	520,295	577,015	649,810	641,420	477,240	485,630
Sep	1,134,385	70,955	30,765	38,810	38,810	583,630	531,515	693,395	601,090	440,990	533,295
Oct	1,163,445	48,330	44,650	55,105	55,105	571,305	561,870	674,740	661,625	488,705	501,820
Nov	1,138,005	37,755	57,840	36,470	36,470	595,470	560,210	669,695	654,520	468,310	483,485
Dec	1,062,110	30,255	46,180	29,420	29,420	584,915	570,645	644,590	646,245	417,520	415,865

Table 3A

SOYBEANS -- CHICAGO BOARD OF TRADE

NET COMMITMENTS OF TRADERS IN ALL FUTURES COMBINED

Month-end Date	Net Reportable Positions				Net Nonreportable Positions	
	NonCommercial		Commercial			
1983	Long	Short	Long	Short	Long	Short
	(Thousand Bushels)					
Jan	45,455		145,875		100,420	
Feb		10,005	52,390		62,395	
Mar	62,700		150,870		88,170	
Apr	39,230		162,980		123,750	
May		17,345	87,085		104,430	
Jun		9,980	67,795		77,775	
Jul	61,685		197,795		136,110	
Aug	74,885		217,355		142,470	
Sep	69,880		158,860		88,980	
Oct	30,180		86,850		56,670	
Nov	2,685		92,765		90,080	
Dec	48,305		108,835		60,530	

Table 3B

CORN -- CHICAGO BOARD OF TRADE

NET COMMITMENTS OF TRADERS IN ALL FUTURES COMBINED

Month-end Date	Net Reportable Positions				Net Nonreportable Positions	
	NonCommercial		Commercial			
	Long	Short	Long	Short	Long	Short
1983	(Thousand Bushels)					
Jan	63,120			96,330	33,210	
Feb	68,880			42,460		26,420
Mar	54,185			123,695	69,510	
Apr	28,845			48,745	19,900	
May		27,010	78,635			51,625
Jun	7,985		19,295			27,280
Jul	49,055			72,380	23,325	
Aug	65,110			56,720		8,390
Sep	40,190		52,115			92,305
Oct	3,680		9,435			13,115
Nov		20,085	35,260			15,175
Dec		15,925	14,270		1,655	

Table 4A

SOYBEANS -- CHICAGO BOARD OF TRADE

COMMITMENTS OF TRADERS IN ALL FUTURES COMBINED
AS A PERCENT OF MONTHEND OPEN INTEREST

Month-end Date	Open Interest	REPORTABLE POSITIONS						NONREPORTABLE POSITIONS	
		Non-Commercial		Commercial		Total			
		Long	Short	Long	Short	Long	Short	Long	Short
1983		(Percent)							
Jan	100.0%	17.5	7.7	28.2	59.6	45.7	67.3	54.3	32.7
Feb	100.0%	14.5	17.0	32.9	45.6	47.4	62.5	52.6	37.5
Mar	100.0%	20.6	7.7	24.4	55.5	45.0	63.2	55.0	36.8
Apr	100.0%	21.2	13.5	21.4	53.5	42.6	67.0	57.4	33.0
May	100.0%	9.9	14.0	27.0	47.3	36.9	61.2	63.1	38.8
Jun	100.0%	13.7	16.2	31.0	47.9	44.7	64.1	55.3	35.9
Jul	100.0%	22.2	11.0	26.3	62.5	48.6	73.4	51.4	26.6
Aug	100.0%	20.4	9.9	26.8	57.3	47.2	67.2	52.8	32.8
Sep	100.0%	21.0	11.6	30.9	52.2	52.0	63.9	48.0	36.1
Oct	100.0%	18.4	14.0	35.5	48.2	53.9	62.2	46.1	37.8
Nov	100.0%	11.9	11.5	38.9	53.3	50.9	64.8	49.1	35.2
Dec	100.0%	18.9	10.9	34.9	52.9	53.8	63.8	46.2	36.2

Table 4B

CORN -- CHICAGO BOARD OF TRADE

COMMITMENTS OF TRADERS IN ALL FUTURES COMBINED
AS A PERCENT OF MONTHEND OPEN INTEREST

Month-end Date	Open Interest	REPORTABLE POSITIONS						NONREPORTABLE POSITIONS	
		Non-Commercial		Commercial		Total			
		Long	Short	Long	Short	Long	Short	Long	Short
1983		(Percent)							
Jan	100.0%	14.0	5.9	43.2	55.6	57.1	61.4	42.9	38.6
Feb	100.0%	16.0	7.1	44.8	50.3	60.7	57.3	39.3	42.7
Mar	100.0%	12.2	6.0	40.6	54.8	52.8	60.8	47.2	39.2
Apr	100.0%	11.7	8.3	42.3	48.2	54.0	56.4	46.0	43.6
May	100.0%	6.4	10.0	51.8	41.4	58.2	51.4	41.8	48.6
Jun	100.0%	8.5	7.4	52.5	49.9	61.0	57.2	39.0	42.8
Jul	100.0%	10.9	4.7	42.9	52.0	53.8	56.7	46.2	43.3
Aug	100.0%	11.5	5.8	46.2	51.1	57.7	56.9	42.3	43.1
Sep	100.0%	9.7	6.1	51.4	46.9	61.1	53.0	38.9	47.0
Oct	100.0%	8.9	8.6	49.1	48.3	58.0	56.9	42.0	43.1
Nov	100.0%	6.5	8.3	52.3	49.2	58.8	57.5	41.2	42.5
Dec	100.0%	5.6	7.1	55.1	53.7	60.7	60.8	39.3	39.2

Senator JEPSEN. I thank you, Mr. West. Let me emphasize as I did in my opening remarks this morning, this committee is not on a witch hunt nor will we be used to harvest any sour grapes that may be around.

By the same token, we also do not serve as a vehicle for deception or patronization. Keep that in mind while I ask my questions.

I do not mean to ask questions with any one firm or business in mind. It should not be construed for the record as such. But I would like to pursue rather directly and rather rapidly, a series of questions.

The first one: Are there any circumstances whereby members of the commodity exchange can benefit from improper conduct or whatever name you might want to call it—for the purpose of this question, let us use the word "manipulation."

Are there any circumstances by which the markets could be manipulated?

Mr. WEST. Mr. Chairman, I think there are circumstances where that can be found. Of course, this commission and the exchanges under the theories of self-regulation are dedicated to preventing that type of thing. But particularly I would say when supplies are very short.

Senator JEPSEN. There are some? It could happen?

Mr. WEST. Yes.

Senator JEPSEN. How often does the CFTC perform audits, only when necessary or on a scheduled basis?

Mr. WEST. Right now we are trying to perform audits. We have two different types of audits, financial and rule enforcement audits. But we are getting to a schedule now, hopefully about once every year. We have not reached that plateau as yet, but we have made great progress. We are trying to do this once a year.

Senator JEPSEN. What tools are available to the CFTC to assure the adoption and enforcement of its rules and regulations or recommendations?

Mr. WEST. Mr. Chairman, the commission has a number of powers. If we were to find exchanges in violation, we could suspend trading activity on an exchange, we could fine an exchange, or we could revoke the license for the exchange to operate. This is at the exchange level.

Of individuals, there are revocations of certain licenses. They may be fined and there may be criminal proceedings as well.

Senator JEPSEN. With reference to the operation of other exchanges, are your November 1983 findings relative to the Chicago Board of Trade unusual or extraordinary?

Mr. WEST. Mr. Chairman, of course I had been there only 15 months so far, but there have been instances in the past where there have been very severe findings as a result of rule enforcement reviews. There have not been many. This was, I think, a serious situation reviewed by the commission.

Senator JEPSEN. As stated in your November report, the Chicago Board of Trade failed to fully implement the rules and regulations. What is to prevent the board of trade from ignoring the recommendations in the 1983 audit if they did it in the 1982 audit?

Mr. WEST. Mr. Chairman, it would be very difficult to tell the effects of any price, futures prices, because of the fact that the board

of trade may not have implemented all those things that were recommended in the 1982 review.

I would say this: That with regard to their reaction to the 1983 rule enforcement review, that we have found that their leadership has been extremely cooperative and has been in the process of implementing most of the recommendations, and there are some yet to be implemented. But I believe it is coming within 3 days or so. We will continue to watch very closely provided these recommendations are implemented to see if, in fact, they are followed by the exchange.

Senator JEPSEN. And the recommendation in the 1983 audit were for the most part a reenforcement and reiteration of what you had asked and recommended in the 1982 audit?

Mr. WEST. That is correct, Mr. Chairman.

Senator JEPSEN. First of all, as a general rule, is there a greater opportunity for speculators to make more money in a highly volatile market while farmers may like some price stability?

Mr. WEST. If I may turn to Mr. Mielke for a comment on that.

Mr. MIELKE. Can you hear me with this microphone?

Senator JEPSEN. Yes.

Mr. MIELKE. Increased volatility offers opportunity for increased profit and speculation, but also creates increased risks for a commercial use for the markets. So what we generally find is an increase in trading activity both by its speculators and by hedgers when there is increased price volatility, and the market participation usually does not change. Overall activity increases with both components.

Senator JEPSEN. At the conclusion of your statement, Mr. West, you stated that you have not completed your analysis of possible manipulation by a number of traders who may have acted in concert, is that accurate?

Mr. WEST. That is correct, sir.

Senator JEPSEN. Is the CFTC currently conducting an investigation of any members of the board of trade specifically in regards to soybean and corn trading?

Mr. WEST. Mr. Chairman, we do not have an investigation of any individual of such. We are trying to work very closely with the exchange and use our own data to see if we find any evidence of this type of thing that is going on. And if, in fact, that evidence is found, we would certainly seriously consider specific investigations against individuals.

Senator JEPSEN. Does the CFTC and or the Chicago Board of Trade have available historical data to conclusively prove or disprove these allegations of price manipulation?

Mr. WEST. Well, I would say the data is there, or people so indicated it is there. It will take some time to sift through, particularly when we are talking about trading patterns during a specific day. That requires going back and reconstructing trades and when these trades occurred.

Senator JEPSEN. Have you received any information in writing or otherwise from the board of trade or communication of any other kind saying that they are going to move on these recommendations?

Mr. WEST. Yes, sir. We have a very detailed document from the board of trade.

Senator JEPSEN. When did you receive that?

Mr. WEST. I believe it was within the last 2 weeks—January 9.

Senator JEPSEN. I understand that trading margins were raised several times during the fall of 1983, is that correct?

Mr. WEST. That is correct.

Senator JEPSEN. What effect did that have on traders' participation? Is it true that the higher the required margin the more reluctant farmers and small traders are to participate in the market? That the higher margins combined with extreme and rapid prices make more costly and dangerous hedging for farmers, is that accurate?

Mr. WEST. Mr. Chairman, I would like to turn to Mr. Mielke for more information about what happens in those markets.

Mr. MIELKE. Mr. Chairman, your question is a difficult one to answer effectively because we found out from listening to some of the other people this morning that there are a lot of interdependent things affecting those margins, higher margins. During the period following some of those margin increases, we did see reduced trading volume and reduced open interest. But there are other factors. I am sure that lead to that change in the market.

Senator JEPSEN. Do you have any thought, Mr. West, or any comment about restricting the Commodity Futures Trading Commission about permitting a lower margin for bona fide producers?

Mr. WEST. Mr. Chairman, I had not given that thought.

Senator JEPSEN. Have you had any question from the Board of Trade or any inquiry about it?

Mr. WEST. Not to my knowledge.

Senator JEPSEN. Could they go ahead and set their own margins?

Mr. WEST. The exchanges set the margins. Whether or not we want to adopt any kind of rule requiring them to give that special work would be another matter. But exchanges do set the margins. Except in emergencies the Commission has authority to set margin levels.

And Mr. Mielke reminded me that so far as hedging is concerned, the margins are lower than the margins for speculators.

Senator JEPSEN. What percentage of the average daily futures volume of the Chicago Board of Trade would be for the purpose of pure speculation, or is that a valid question?

Mr. WEST. It is a valid question, Mr. Chairman, but I do not believe that we have that data because the reports we get are only traders above a certain level. The large trader report that we get pursuant to our regulations involve traders with positions of over 500,000 bushels. So it would be very difficult to get. But that is a very good question. We do not have that information.

Senator JEPSEN. Do you have any time table at which time you could with any finality say whether there has been any improper conduct on the part of any member firms? You said you did not have individuals numbers, but you had some firms that you were specifically looking into.

Mr. WEST. Mr. Chairman, I am advised that we would hope to have the ongoing inquiries that we have going now completed during the spring. Now, if we do come into some particular prob-

lems and decide to conduct a formal investigation, of course the results of that investigation would be made available at a later date. But hopefully we will have some findings in our inquiries in spring.

Senator JEPSEN. Do you have any closing comment? Do you feel you have adequate authority by the statute rules to provide for a review of the many commodity trade boards?

Mr. WEST. Mr. Chairman, as you know, we are a small agency. We have about 500 employees. I think that the statute does give the Commission ample authority. We operate under the theory of self-regulation, but self-regulation works only as far as all of the self-regulators do their job. We have self-regulation now on the part of exchanges and we have, of course, the National Futures Association which is a self-regulatory association that is now getting fully operative. And I think we do have proper resources, but only so far as everyone does their job.

Senator JEPSEN. Mr. West, you have brought experience in various areas in and around Washington. You carry a very distinguished career and reputation with you. Do you know on the basis of your 15 months, how does the CFTC coordinate with the USDA by way of a liaison function?

Mr. WEST. Mr. Chairman, we have a rather informal arrangement. I think it is safe to say that parties of our division communicate with the Department of Agriculture on various problems. We do have one person who is in charge of intergovernmental regulations, and that person has contacts with the Department of Agriculture.

The statute, though, is very explicit in saying that this Commission should maintain a strong liaison with the Department of Agriculture. Perhaps we should revise that statute and see if we can not formalize that a bit more. But we have no hesitation to call them nor they call us. Perhaps it should be a bit more formal.

Senator JEPSEN. Have you discussed at any time recently the apparent organized move toward the possibility of livestock people questioning that futures trading in their products be ceased?

Mr. WEST. Mr. Chairman, we have worked very closely with producer groups, as you are aware. We have been working in agricultural options, as a matter of fact.

But we have only a few who have taken as a cause to try to maintain a good relationship with the various livestock producer groups and has participated in a number of meetings between those groups and the Chicago Mercantile Exchange who handles those particular contracts. I think that we have seen some progress for the better understanding between the producer groups and the exchange, and there are certain changes in the works in livestock contracts which I hope will work toward minimizing what has been expressed about how those contracts operate.

Senator JEPSEN. Finally, it has been alluded to by several of the witnesses here the need for greater education of how as a financial planning tool the Board of Trade may be used. Whose responsibility is that, in your opinion?

Mr. WEST. Mr. Chairman, we have certain public educational responsibilities, but I do not think that those responsibilities go to educating the public about how to go about using it or what strategies might be utilized.

I personally have gone around and visited some organizations, particularly back in Texas where I come from. And I urged those organizations themselves to try to develop programs to educate their own members about futures, and I think that we are seeing more and more of this being done.

There is a reluctance. So far as we are now getting a good deal of assistance from the Department of Agriculture, from the Extension Service, particularly into the area of agricultural options, Mr. Chairman. And some moneys have been designated for plans to educate farmers about the use of agricultural options. It is a big area that needs to be addressed.

Senator JEPSEN. I have nothing further. Do any of you have a closing statement you would like to make?

Mr. WEST. No, sir.

Mr. MIELKE. No, sir.

Senator JEPSEN. I thank you very much.

Mr. WEST. Thank you, Mr. Chairman.

Senator JEPSEN. Neal Kottke. I welcome you, Mr. Kottke, and advise that any written statement you have will be entered into the record as if read. You may proceed in any manner you so desire. Thank you for coming.

STATEMENT OF NEAL E. KOTTKE, VICE CHAIRMAN AND MEMBER, CHICAGO BOARD OF TRADE, AND VICE PRESIDENT, AGRA TRADING INC., CHICAGO, ILL.

Mr. KOTTKE. Mr. Chairman, thank you.

I am Neal Kottke, vice chairman and a member of the Chicago Board of Trade. I would like to give you my background before I make our statement to the committee.

I am a fourth generation farmer. My family homesteaded Central Illinois land in the mid-19th century. Our farms grow corn and soybeans principally. I have been a member of the Chicago Board of Trade since 1976. Before that I was employed by Continental Grain Co.

Currently, I am vice president of Agra Trading, Inc., a member firm of the Chicago Board of Trade. In this capacity, I handle commercial accounts, some of which are international.

The Chicago Board of Trade is pleased to have this opportunity to appear before this distinguished committee. The Chicago Board of Trade is the world's largest and oldest futures exchange. Throughout its history, the Chicago Board of Trade has served as the predominant national and international market for trading in agricultural commodities. Agricultural prices, determined through trading on the floor of the Chicago Board of Trade, are quoted, disseminated and relied upon throughout the United States and the world as a basis for determining the prices for producers and consumers of these commodities and their byproducts. It is most appropriate, therefore, that the Chicago Board of Trade provide this committee without perceptions of events in the corn and soybean markets during the past year.

As preface to our analysis of these markets, the self-regulatory function of the Chicago Board of Trade should be explained. Under the Commodity Exchange Act, Congress has preserved the wide

spectrum of self-regulatory duties traditionally assumed by the Chicago Board of Trade and other futures exchanges. A principal duty prescribed by Congress is protecting the integrity of the futures marketplace through the prevention and detection of market manipulation.

The Chicago Board of Trade appreciates fully the magnitude of this surveillance responsibility and is proud of its long-standing record for self-regulatory effectiveness and excellence. Over the years the Chicago Board of Trade has instituted many important and innovative self-regulatory protections in order to sustain its preeminent status. For example, the Chicago Board of Trade was the first futures exchange:

First, to establish its own office of investigations and audits;

Second, to test, investigate the background of, and register commodity salesmen;

Third, to begin regular onsite examinations of any member firm handling public customer business;

Fourth, to initiate an intensive, comprehensive training program for new audit and compliance personnel; and

Fifth, to develop a sophisticated computerized financial surveillance data system.

The Chicago Board of Trade is fully committed to preserving its industrywide reputation for free, open, and honest markets and will continue to adopt new self-regulatory programs as warranted. Toward this end, the Chicago Board of Trade has accelerated the development and implementation of a number of new self-regulatory measures which the Commodity Futures Trading Commission has recently recommended. The Chicago Board of Trade is confident that these new self-regulatory systems will enhance further our already substantial market surveillance capacity and will evidence unequivocally our dedication to fulfilling our self-regulatory responsibilities.

There has been concern expressed by farmers and market commentators of the recent price movements in grain markets and the Chicago Board of Trade has been sensitive to this concern. With regard to the corn and soybean markets, the Chicago Board of Trade is conducting an ongoing investigation of alleged improper conduct. During the course of this investigation, Chicago Board of Trade staff has reviewed the trading of individual members and member firms who have been major participants in the soybean futures market. This trading is being scrutinized in the context of, among other factors, fairly open interest and market volume information. At this time, Chicago Board of Trade staff has not determined whether price manipulation has occurred in violation of Chicago Board of Trade regulations. As this investigation is still active, it would be inappropriate, in violation of the Commodity Exchange Act and potentially detrimental to the Chicago Board of Trade's market surveillance and investigatory programs for me to describe the details of this investigation.

We would like to take the opportunity to describe for this committee today the supply and demand market factors that explain recent price behavior in soybeans and corn. In addition, I will discuss price volatility in 1983 as compared to previous years, and market surveillance activities during 1983.

The year 1983 was one of contrasts and extreme uncertainty. The year began with the largest carryover stocks of grain ever experienced in this country and ended with the lowest corn and soybean stocks in several years. It began with low, stable prices for corn and soybeans and ended with substantially higher and more volatile prices. It began with a relatively strong dollar and ended with the value of the dollar appreciating greatly at an increasing rate against the currencies of our grain trading partners. It began with a legacy of several years of low-farm incomes and ended with farm incomes on the rise. It began with a set of circumstances reflecting the traditional Government program—loan prices, target prices, and farmer-owned reserves—and ended with grain markets significantly influenced by a nontraditional program—payment-in-kind. In between, weather conditions vacillated from conditions of extreme spring moisture in many growing regions, to severe summer heat and drought, to a wet fall.

During the year, many looked to the futures markets for guidance in translating these continually changing conditions and events into prices. As always, futures prices were made widely available and were closely scrutinized. Not all agreed with the conclusions of the futures markets and like all economic institutions in the public eye, the markets were criticized for their inability to satisfy everyone. For some time, the prices were too high; for some, too low, for others, too volatile.

Overall, 1983 was a typical year in one sense for grain prices. The factors affecting grain supplies dominated the market price trend prior to the crop harvest, whereas the factors affecting demand set the pace for the grain markets after the harvest. The following review of the events of 1983 supports the view that the observed price volatility in 1983 was a direct reflection of the volatility of fundamental factors affecting both supply and demand.

The corn and soybean markets were impacted significantly by three major factors in 1983.

The first factor was the PIK program which reduced the potential crop size of corn 27 percent by reducing the planted acreage from 81.9 million acres in 1982 to 60.1 million acres in 1983. With the announcement of this program and increasing farmer participation, coupled with the record disappearance of corn in April-May of 1983, corn futures prices rose 31 percent from $2.42¾ on January 4 to $3.18¾ per bushel on May 5, 1983.

The second factor to impact the grain markets was the hot and dry summer weather. During July and August, as the drought continued, the nearby corn futures price closed at $3.67¾ per bushel on August 15, 1983, a 15-percent increase over the July 1, 1983 price of $3.19 per bushel. Corn released from farmer owned reserve stocks cushioned this rise in corn prices. The nearby soybean futures rose 30 percent from $6.10¼ per bushel on July 1, 1983 to $7.95¾ per bushel on August 5, 1983 and then closed at $9.40¾ per bushel on September 9, 1983—a 54-percent increase from the July 1 price.

The third major factor, the state of the world economy, depressed prices this year. Since exports account for about 25 percent of the total U.S. corn disappearance and 40 percent of the U.S. total soybean disappearance, the relative ill health of foreign economies

and their currencies depressed these markets. After the completion of the harvest, when production estimates firmed, this demand factor became dominant. The severe depreciation in European currencies relative to the dollar weakened foreign purchasing power considerably. For example, the weighted corn exchange rate for September increased 58 percent from the beginning of the year and increased 85 percent from the level of a year earlier.

The soybean exchange rate showed that soybeans in September were 19 percent more expensive than a year earlier. Corn and soybeans became very expensive to foreign buyers. The slow and weak economic recovery of the developing countries discouraged their purchases of expensive corn and soybean meal as feed for livestock. In light of the events in 1983, the recent decline in corn and soybean prices can be viewed as a direct consequence of market demand fundamentals. Corn and soybean prices fell respectively to $3.25½ and $7.56 per bushel in mid-December.

In spite of their price volatility in 1983, the corn and soybean futures markets maintained their performance efficiency. Correlation coefficients show that the prices of all major cash markets in the United States moved in an almost perfect correspondence with futures prices. Ninety-five percent or more of corn cash price movements at the Gulf, Kansas City, Memphis, and northcentral and southeast Iowa were in line with corn futures price movements. Ninety-eight percent or more of the soybean price movements reported for similar markets were in line with soybean futures prices. Since cash and futures prices moved in direct relationship in 1983, corn and soybean futures markets performed efficiently despite the great price volatility.

Some believe that the existence of futures markets increases price volatility, numerous economic analyses have shown that price volatility declines after futures markets are introduced. Futures markets decrease price volatility because they improve the flow of information and cause prices to be more accurately determined. As Professor Cox stated in the Journal of Political Economy "spot markets seem to work more efficiently because of futures trading."

Large price moves in soybeans and grains are not uncommon. A review of past soybean price history shows that in 1972–73, soybean futures prices rose from $3.51½ per bushel in November to $12.90 per bushel in June and fell to $5.75 per bushel in September of that same year. In 1976–77, soybean prices rose more than $4 per bushel only to fall more than $5 per bushel. In 1983, soybean prices rose more than $3 per bushel and then fell to $7.56 per bushel in December. While there has been a substantial rise and fall in soybean prices in 1983, the magnitude of this price increase and decrease is less than those recorded in past years of volatile prices.

In the years noted above, relatively high soybean price levels were reached. Price volatility as measured by average change in day-to-day prices and average-daily-trading-range increases as the price level for soybean futures increases. When prices were near $6, the average day-to-day price change was 5.2 cents. The day-to-day price change was 7.8 cents when prices were near $7. The average day-to-day price change increased to 15.5 cents when prices were around $8 and to 16.50 cents when prices were around $9.

Thus, the average day-to-day price change increased as prices increased.

The conclusion that can be drawn from these measures of price volatility is that price volatility increases as the absolute price level increases. The increased price volatility which accompanies the high soybean prices of 1983 was not unusual.

The Economic Recovery Tax Act of 1981 significantly changes the taxation of profits on futures contracts.

The act changes the entire structure of tax incentives for the futures industry. In particular, the act created a disincentive for acquiring positions in deferred contract months. In response to the changed incentives, volume, and open interest in the deferred months have declined in both absolute and percentage terms.

The act, which changes the incentive for trading in different contract months, caused the distribution of volume and open interest among contract months to change. The tax legislation also caused the structure of futures markets and futures prices to change. The legislation removed the tax incentives for long-term position trading and spreading in futures markets. As a result, one would expect fewer spreading transactions, particularly fewer small-lot trades, then there would have been under the previous tax laws. Because small-lot orders are essential for liquid markets, any reduction in small-lot trades would have caused liquidity to decline and execution costs to rise. Thus, the tax legislation may have caused futures markets to be less liquid, resulting in larger price moves as orders entered the market. One would expect the consequences of this phenomenon to be particularly noticeable in volatile markets, as seen in corn and soybean markets in 1983 for the first time since the 1981 Tax Act.

The CBOT has the largest and most sophisticated office of investigations and audits of any futures exchange. This office continually monitors the performance of the futures market and the trading activities of market participants. When price volatility increases, this office normally conducts inquiries to determine whether improper conduct is involved. In the case of certain grain markets in 1983, Chicago Board of Trade staff is conducting such an investigation. The office of investigation and audits submits its conclusions and recommendations to the business conduct committee. This committee is comprised of Chicago Board of Trade members who address alleged market integrity problems. In instances of major desciplinary action, the Chicago Board of Trade's board of directors exercises final authority. And, the Commodity Futures Trading Commission may also review the investigation and disciplinary action taken by the Chicago Board of Trade.

In addition to the surveillance of the Chicago Board of Trade, the CFTC, on a routine basis, examines the daily positions of traders and trading firms to determine if CFTC-set speculative position limits have been violated. The current speculative position limit for corn and soybeans is 3-million bushels net long or short in any 1 trading month or all trading months combined. This position limit applies to individual traders or to a group of traders who are trading in concert, explicitly or implicitly.

I would like to conclude with a description of the participants in the 1983 markets. A public report of open positions of large traders

at the end of the month is made available by the CFTC. The reports show that large, open, speculative positions remained a small share of total open interest during 1983. Monthend open interest of large speculators with open, long positions—including spreads—as a share of total open, long positions ranged 9.9 percent in May to 22.2 percent in July for soybeans, and from 6.4 percent in May to 16 percent in February for corn. Large commercials were a much larger factor on the long side as their share of total open long positions—including spreads—ranged from 21.4 percent in April to 38.9 percent in November for soybeans and from 40.6 percent in March to 55.1 percent in December for corn. Short positions of large speculators—including spreads—ranged from 7.7 percent of total short, open interest in January and March to 16.2 percent in June for soybeans and from 4.7 percent in July to 10 percent in May for corn. Again, large commercials played a larger role, holding a share of total short positions—including spreads—ranging from 45.6 percent in February to 62.5 percent in July for soybeans and from 41.4 percent in May to 55.6 percent in January for corn. These data reflect the genuine worldwide commercial participation in our markets.

The Chicago Board of Trade hopes this presentation has aided the joint committee's understanding of the corn and soybean markets in 1983. We stand ready to answer any questions you may have.

[The prepared statement of Mr. Kottke follows:]

PREPARED STATEMENT OF NEAL E. KOTTKE

INTRODUCTION

Mr. Chairman and Members of the Committee:

The Chicago Board of Trade is pleased to have the opportunity to appear before this distinguished Committee. The Chicago Board of Trade is the world's largest and oldest futures exchange. Throughout its history, the Board of Trade has served as the predominant national and international market for trading in agricultural commodities. Agricultural prices determined through trading on the floor of the Board of Trade are quoted, disseminated, and relied upon throughout the United States and the world as a basis for determining the prices for producers and consumers of these commodities and their byproducts. It is most appropriate, therefore, that the Board of Trade provide this Committee with our perceptions of events in the corn and soybean markets during the past year.

As a preface to our analysis of these markets, the self-regulatory function of the Board of Trade should be explained. Under the Commodity Exchange Act, Congress has directed the Chicago Board of Trade and other futures exchanges to fulfill a wide spectrum of self-regulatory duties. A principal duty prescribed by Congress is protecting the integrity of the futures marketplace through the prevention and detection of market manipulation.

The Board of Trade appreciates fully the magnitude of this surveillance responsibility and is proud of its long-standing record for self-regulatory effectiveness and excellence. Over the years the Board of Trade has instituted many important and innovative self-regulatory protections in order to sustain its preeminent status. For example, the Board of Trade was the first futures exchange:

1) to establish its own office of investigations and audits;

2) to test, investigate the background of, and register commodity salesmen;

3) to begin regular on-site examinations of any member firm handling public customer business;

4) to initiate an intensive, comprehensive training program for new audit and compliance personnel; and

5) to develop a sophisticated computerized financial surveillance data system.

The Board of Trade is fully committed to preserving its industry-wide reputation for free, open and honest markets and will continue to adopt new self-regulatory programs as warranted. Toward this end, the Board of Trade has accelerated the development and implementation of a number of new self-regulatory measures which the Commodity Futures Trading Commission has recently recommended. The Board of Trade is confident that these new self-regulatory systems will enhance further our already substantial market surveillance capacity and will evidence unequivocally our dedication to fulfilling our self-regulatory responsibilities.

With regard to the corn and soybean markets, the Board of Trade wants to advise this Committee that we are conducting an ongoing investigation of alleged improper conduct. During the course of this investigation, Board of Trade staff has reviewed the trading of individual members and member firms who have been major participants in the soybean futures market. This trading is being scrutinized in the context of, among other factors, daily open interest and market volume information. At this time, Board of Trade staff has not determined whether price manipulation has occurred in violation of Board of Trade regulations. As this investigation is still active, it would be inappropriate, violative of the Commodity Exchange Act and potentially detrimental to the Board of Trade's market surveillance and investigatory programs for me to describe today the details of this investigation.

Nevertheless, the Board of Trade has continuously monitored events and trading in the soybean and corn markets. We can therefore describe for this Committee today the supply and demand market factors that may explain recent price behavior in soybeans and corn. Basically, the strong rise in prices through September, 1983 appears to have been caused primarily by the affects of the Payment-In-Kind ("PIK") Program and the severe summer drought. The subsequent decline in prices may be explained generally by the strength of the U.S. dollar which effected adversely foreign

export demand and by relative, periodic reductions in the reported impact of the drought on crop production. We reiterate, however, that until our investigation is concluded, no firm conclusion can or should be drawn.

Specifically, the following is discussed in this paper:

1) relevant economic factors and price movements in the corn and soybean markets in 1983;

2) price volatility in 1983 as compared to previous years; and

3) market surveillance activities during 1983. Also included is an Appendix which discusses the role of futures markets and how futures markets dampen price volatility.

CORN AND SOYBEAN MARKETS WERE IMPACTED BY VOLATILE ECONOMIC FACTORS DURING 1983.

The year 1983 was one of contrasts and extreme uncertainty. The year began with some of the largest carry over stocks of grain ever experienced in this country and ended with the lowest corn and soybean stocks in several years. It began with low, stable prices for corn and soybeans and ended with substantially higher and more volatile prices. It began with a relatively strong dollar and ended with the value of the dollar appreciating at an increasing rate against the currencies of our grain trading partners. It began with a legacy of several years of low farm incomes and ended with farm incomes on the rise. It began with a set of

circumstances reflecting the traditional government program mix (loan prices, target prices and farmer-owned reserves) and ended with grain markets significantly influenced by a non-traditional program--P.I.K. In between, weather conditions vacillated from conditions of extreme spring moisture in many growing regions, to severe summer heat and drought, to a wet fall.

During the year, many looked to the futures markets for guidance in translating these continually changing conditions and events into prices. As always, the futures prices were made widely available and were closely scrutinized. Not all agreed with the conclusions of the futures markets and like all economic institutions in the public eye, the markets were criticized for their inability to satisfy everyone. For some, the prices were too high; for some, too low; for others, too volatile.

Overall, 1983 was a typical year in one sense for grain prices. The factors affecting grain supplies dominated the market price trend prior to the crop harvest, whereas the factors affecting demand set the pace for the grain markets after the harvest. The following review of the events of 1983 supports the view that the observed price volatility in 1983 was a direct reflection of the volatility of fundamental factors affecting both supply and demand.

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CHART 1

DAILY CORN PRICES: JAN. 1983 to DEC. 1983
Futures' Nearby Closing Price (line)
Chicago Cash Price (dot)
CENTS/BU.
380
360
340
320
300
280
260
240
220
JAN . FEB. MAR . APR . MAY . JUN . JUL . AUG . SEP . OCT . NOV . DEC .

CORN MARKET

As an overview, during 1983, the nearby corn futures price rose from a low of $2.42 3/4 cents per bushel in January to a high of $3.67 3/4 in August and then fell to $3.25 1/4 in December. As shown in Chart 1, corn prices gradually climbed upward to a $3.13 3/4 per bushel level from January to late-March and stayed firm at that level until the latter part of June. Then, due to a developing drought condition, corn prices rose past $3.67 3/4 per bushel during August. In the face of pressure from new crop corn and the release of corn under PIK entitlements, corn prices declined during the last three months of the year and fell to a $3.25 per bushel level.

In January 1983, with expected record large carryovers of 3.4 billion bushels, the USDA announced the PIK program to reduce crop production and stocks and strengthen prices. With the announcement of this program and increasing farmer participation, coupled with the record domestic disappearance of corn, corn prices rose 30% from $2.44 1/4 per bushel on January 3 to $3.18 3/4 per bushel on May 5, 1983.

The USDA May 10 report of farmers' planting intentions estimated corn acreage at 58.8 million acres or 15% below its February 17 report and about 28% below 1982. Planting intentions were larger than expected and the pressure of reduced export potential forced corn prices lower to $3.00 per bushel.

When the June 10 report of farmers' planting intentions was released by the USDA, it showed an increase of 1.3 million acres for corn from the May report. Expected acreage to be harvested coupled with a normal trend in yields gave an estimated crop size of 6 billion bushels for corn. This finding did not weaken corn prices and the price remained about $3.10 per bushel. Tight farmer holding and rain-delayed corn planting raised corn prices to $3.20 during the latter part of June.

During July and August, corn futures prices climbed rapidly, reflecting severe crop damage from continued dry and hot weather in the Midwest and farmers' tight holding of inventories in light of increasing prices. The USDA August 8 crop report estimated corn production at 5.2 billion bushels, a 16% decrease from July's supply and demand report. On August 15, 1983, the nearby corn futures price reached $3.67 3/4 per bushel which represented about a 15% increase over the July 1, 1983 price of $3.19.

The USDA September 12 crop report estimated corn production at 4.4 billion bushels, 16% lower than its August estimate. While this report was in line with trade expectations, new crop harvest pressure and the commencement of the PIK entitlement payments in the South put downward pressure on the corn prices temporarily during mid-September. Corn prices during the latter part of September moved up by 10 cents to a $3.55 per bushel level because of expanded sales to Russia.

The corn market remained relatively firm during early October until the USDA October 12 crop report was released. The report showed a further decrease of 3% in corn production from the September estimate, which moved the prices up to $3.57 3/4 per bushel on October 13, 1983. The entrance of new crop corn into the marketing channel, the release of PIK corn entitlements, and the expected decline in foreign corn demand all began to exert downward pressure on the market. On October 20, 1983, corn prices closed below $3.40 per bushel.

A temporary upsurge in corn prices was observed in early November when Mexico bought a large quantity of corn. Then, on November 9, 1983, the nearby wheat futures price closed at $3.58 per bushel, the same as the corn price. Corn began to command a premium over wheat from November 10, 1983 until November 23, 1983. As a result, wheat began to substitute for corn heavily in livestock rations. This substitution of wheat for corn in the domestic market coupled with weak export demand, decreased corn prices to $3.40 1/2 per bushel on November 30, 1983. These changes in the demand factors overrode the impact of the USDA November 10 crop report which placed 1983 corn production at 4.1 billion bushels, down by 3% from October.

Selling of the PIK corn and heavy wheat-feeding continued to drive the corn prices lower to a $3.25 1/2 per bushel level in mid-December. When the barge traffic was

tied up due to frozen rivers in the corn belt, corn prices began to rise slightly in late December to $3.40 per bushel.

In summary, three major factors had a significant impact upon the market in 1983. The first factor was the PIK program which reduced potential crop size by almost 27% by reducing the planted acreages from 81.9 million acres in 1982 to 60.1 million acres in 1983. The second factor was the hot and dry summer weather. The summer drought further reduced the crop size by 21% from a potential harvest of 5.2 billion bushels in August to 4.1 billion bushels in November, 1983. The resulting 1983 corn production was only one half of the 1982 production. Corn prices rose during the first eight months of 1983 because of these factors.

The third factor, the state of the world economy, was a price depressant this year. Since over 25% of the total U.S. corn disappearance is accounted for by exports, the relative ill health of foreign economies and currencies had an effect upon the corn market. After the completion of the harvest, when production estimates firmed up, this demand factor became dominant. The severe depreciation in European currencies relative to the dollar weakened purchasing power considerably (Chart 2). For example, the corn exchange rate for the first time in recent years exceeded a 400 level in September, 1983 (Table 1). This represented a 58% increase from the beginning of the year an a 85% increase from the level a year earlier. Corn became very expensive to foreign

CHART 2

DAILY DOLLAR VALUES OF THE GERMAN DEUTSCHEMARK

JAN. 1983 to DEC. 1983

TABLE 1

SOYBEAN AND CORN EXCHANGE RATES DURING 1982-83

	Soybean Exchange Rate		Corn Exchange Rate	
Month	1982	1983	1982	1983
January	96.6	135.8	154.8	254.0
February	100.9	138.9	162.5	272.8
March	105.5	140.9	170.9	299.3
April	107.2	141.0	175.2	308.8
May	107.3	140.9	178.3	320.9
June	109.9	143.7	184.3	333.0
July	109.4	145.8	180.9	354.5
August	118.4	149.1	201.1	382.1
September	125.6	149.3	216.9	400.4
October	120.3	148.8	213.2	424.5
November	120.0	152.3	217.5	448.3
December	118.5	155.2*	220.2	461.0*

SOURCE: USDA

* Foreign currency value of U.S. dollar, weight by relative size of agricultural trade with the United States. An increasing value indicates that the dollar has appreciated against the basket of currencies represented in that particular commodity market.

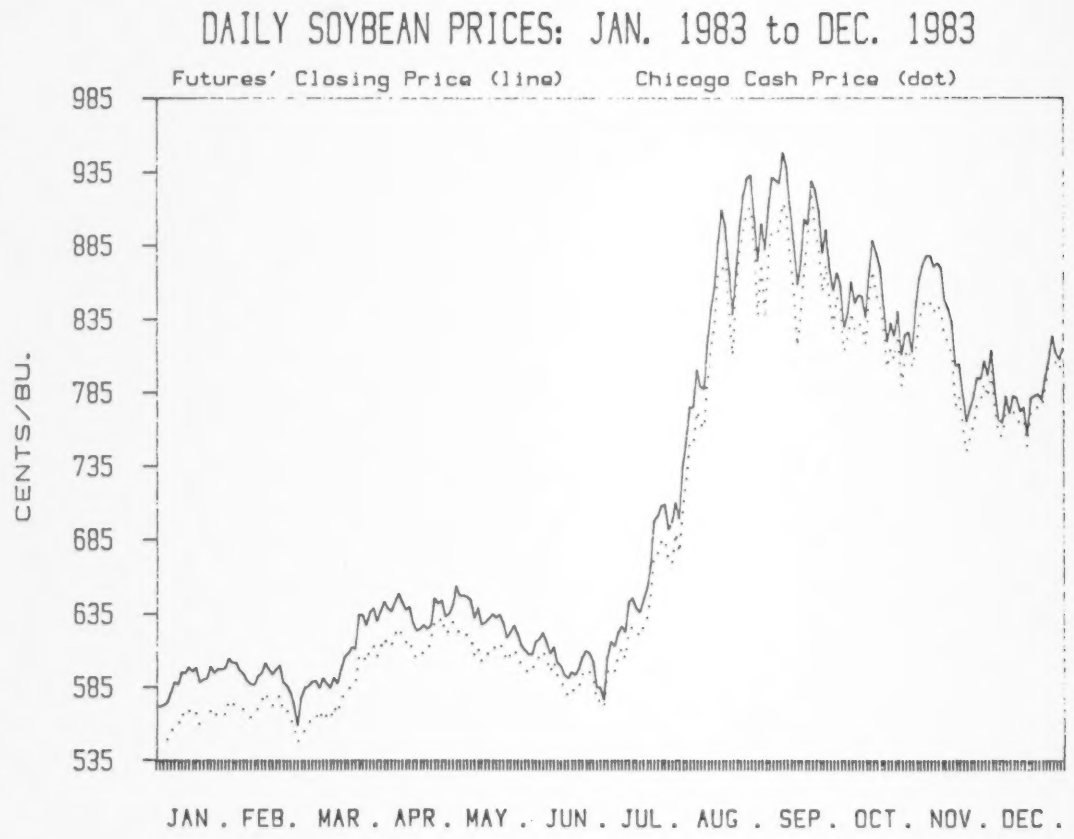
buyers. The slow and weak economic recovery of the developing countries discouraged their purchases of expensive corn as feed for livestock. In light of these events in 1983, the recent decline in corn prices can be viewed as a direct consequence of volatile market demand fundamentals.

SOYBEAN MARKET

Soybean prices ranged between $5.50 and $6.50 per bushel in the first half of 1983, before increasing from about $6.07 1/2 in June to over $9.40 per bushel in September. By December, soybean prices had fallen to $7.70 per bushel. As shown in Chart 3, soybean prices increased by 30% from $6.10 1/4 on July 1, 1983, to $7.95 3/4 per bushel on August 5, 1983, because of the increased severity of the summer drought. Due to continued drought conditions, the nearby soybean futures price increased to $9.40 3/4 per bushel on September 9, 1983. Reduced foreign demand and crush margins exerted a steady downward pressure on soybean prices - despite sporadic upsurges - during the remaining year. On December 8, 1983, the soybean price closed at $7.70 3/4 per bushel, 18% lower than the price observed on September 9, 1983.

In the first half of 1983, soybean prices ranged between $5.50 and $6.50 per bushel. During this period world fish meal supply tightened, and farmers' selling was light which strengthened soybean prices. However, the weakening of foreign currencies and the soybean harvest in South America caused a decline in soybean prices.

CHART 3


DAILY SOYBEAN PRICES: JAN. 1983 to DEC. 1983
Futures' Closing Price (line)
Chicago Cash Price (dot)
CENTS/BU.
985
935
885
835
785
735
685
635
585
535
JAN . FEB. MAR . APR . MAY . JUN . JUL . AUG . SEP . OCT . NOV . DEC .

When the USDA released its May 10 report on farmers' planting intentions, acreages for soybeans were estimated to be 65.8 million acres which were about 4% below its February 17 report and about 9% below 1982. Soybean prices declined due to lack of export demand. The USDA June 10 report of farmers' planting intentions showed a decrease of 2.5 million acres for soybeans. On the basis of the previous yield estimate, the indicated acreage of 63.3 million acres for soybeans placed estimated soybean crop size at two billion bushels for 1983/1984. Despite this bullish report, the soybean futures prices declined due to the uncertainty over planting conditions. The abnormally wet spring which delayed corn planting across much of the United States led many to believe that some corn acreages would be switched to soybeans.

Between July and September, however, soybean prices climbed upward at a rapid pace, reflecting severe crop damage due to continuing hot and dry weather and tight farmer holding of inventories in light of increasing prices. The nearby soybean futures price of $6.10 1/4 on July 1, 1983, rose to $7.95 3/4 per bushel on August 5, 1983, a 30% increase. The USDA August 8 crop report estimated soybean crop size at 1.8 billion bushels, a 17% decrease from the previous year. By September 9, 1983, the nearby soybean prices reached $9.40 3/4 per bushel which represented a 54% increase over the price level observed on July 1, 1983.

The USDA September 12 crop report showed a 1.53 billion bushel soybean crop for 1983. This estimated crop size was 17% smaller than the August estimate and 31% smaller than the previous year's crop. While this crop report was in line with trade expectations and clearly bullish, the effect of severely depreciated European currencies pressured soybean prices down. The soybean exchange rate, as published by the USDA and presented in Table 1, showed that soybeans in September were 10% more expensive than in January and 19% more expensive than a year ago. In light of this expected decline in export demand and the entrance of the new crop soybean into the market, soybean prices slowly declined to $8.51 per bushel on October 10, 1983. This represented a 10% decrease from the $9.40 3/4 price per bushel observed on September 9, 1983.

When the USDA released its October crop production report on October 12, 1983, soybean production was revised downward by 1% to 1.52 billion bushels. As a result, soybean prices remained generally unchanged. However, the lack of export demand coupled with the size of the newly harvested crop continued to erode soybean price .

In early November, soybean prices had a temporary upsurge due to increased demand by domestic soybean processors. However, the USDA November 10 crop report placed the 1983 soybean production at 1.54 billion bushels, up by 1% from October and 31% below the 2.2 billion bushel production

in 1982. Based on this new estimate, the USDA increased the projected 1983/1984 carryover for soybeans by nearly 17% from 120 to 140 million bushels. The USDA further showed that 1983/1984 soybean exports were projected to be down by 20% from the 1982/1983 level. Soybean prices declined sharply during November.

Strong soybean meal demand from Europe gave sporadic support to soybean prices during December. However, the continued depreciation of European currencies relative to the dollar could not sustain this support, pushing down the soybean price to a $7.56 per bushel level on December 15, 1983. The soybean exchange rate continued to climb upward to 155.2 in December, 1983, from 118.5 a year ago. Soybeans became 31% more expensive to foreign buyers between December 1982 and December 1983.

In summary, soybean price movements in 1983 were volatile, increasing from $6.10 1/4 on July 1, to $7.95 3/4 on August 5, and to $9.40 3/4 on September 9, and decreasing to $8.51 on October 10, to $8.23 on November 1, and to $7.56 per bushel on December 15, 1983. This price volatility may be explained, however, by changes in the fundamental factors affecting the demand for and supply of soybeans. The summer drought which reduced soybean crop size by 31% from the previous year's crop caused the dramatic increases in price. When the export demand for soybeans fell after harvest due to weakening European currencies and due to the poor economic recovery of developing countries, the price fell by 20%.

PERFORMANCE RECORD OF FUTURES MARKETS

In spite of their price volatility in 1983, the corn and soybean futures markets maintained their performance efficiency. A correlation coefficient of 1 indicates a perfect correspondence between the values of any two variables. The correlation coefficients tabulated in Table 2 show that the prices of all major cash markets in the U.S. moved in a near perfect correspondence with futures prices. As Table 2 demonstrates, ninety-five percent or more of the corn price movements at the Gulf, Kansas City, Memphis, and Northcentral and Southeast Iowa were in line with the corn futures price movements. Ninety-eight percent or more of the soybean price movements at the Gulf, Kansas City, Memphis, Northcentral and Southeast Iowa, and Illinois Processors were in line with the soybean futures prices. The soybean cash prices in Northcentral and Southeast Iowa moved in statistically perfect harmony with the soybean futures prices. In light of this, futures markets for corn and soybeans in 1983 performed efficiently despite great price volatility. Charts 4-7 graph the movements of corn and soybean futures prices and cash prices.

LARGE PRICE INCREASES FOLLOWED BY LARGE PRICE DECREASES ARE NOT UNCOMMON IN GRAIN MARKETS.

Price Volatility

Although some people think that the existence of futures markets increases price volatility, numerous economic analyses

TABLE 2

CORRELATION COEFFICIENTS OF NEARBY CORN AND SOYBEAN FUTURES PRICES WITH SELECTED CASH PRICES, 1983 1/

Nearby Futures Prices	Location					
	Gulf 2/	Kansas City	Memphis	Northcentral Iowa	Southeast Iowa	Illinois Processors
Corn	0.977	0.958	0.971	0.971	0.968	N/C 3/
Soybeans	0.986	0.987	0.989	0.998	0.998	0.988

1/ Wednesday prices were used for computing the correlation coefficients between nearby futures prices and cash prices at Northcentral and Southeast Iowa. Thursday prices were used for the other locations.

2/ Corn prices at the Gulf represent barge corn and soybean prices at the Gulf represent rail soybeans.

3/ Not computed due to lack of comparable data.

Source: Grain and Feed Market News, Weekly, 1983, USDA.

CHART 4

THURSDAY CORN PRICES OF NEARBY FUTURES, CHICAGO CASH, AND GULF BARGE DURING 1983

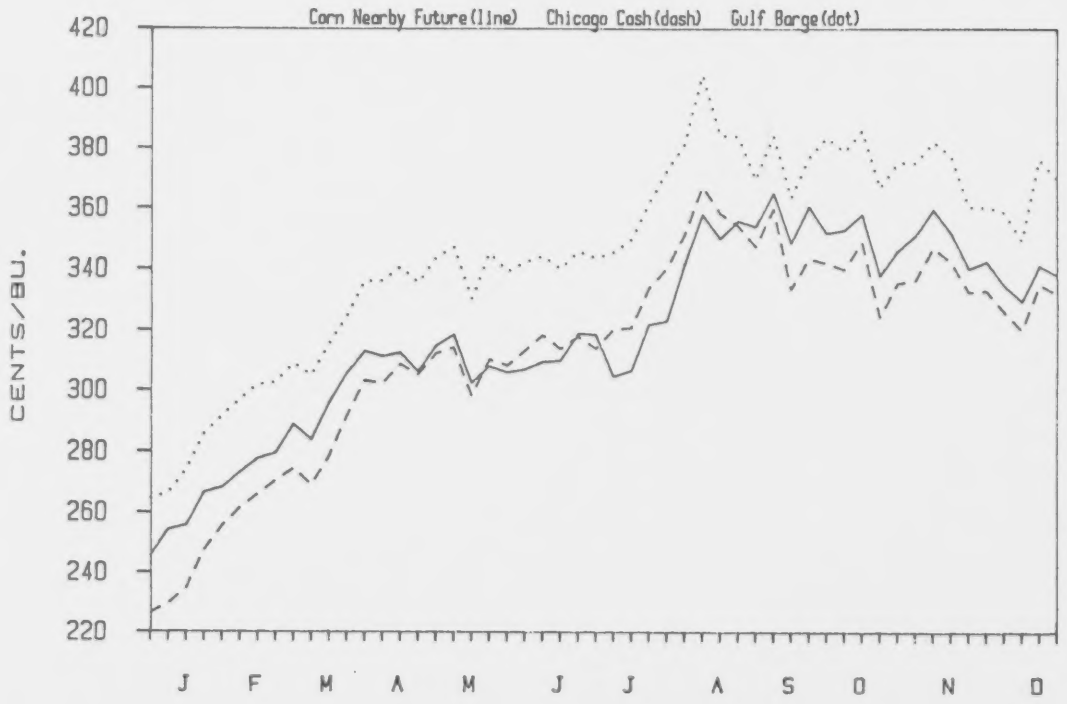


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CHART 5

WEDNESDAY CORN PRICES OF NEARBY FUTURES, N.C. IOWA CASH, AND S.E. IOWA CASH DURING 1983

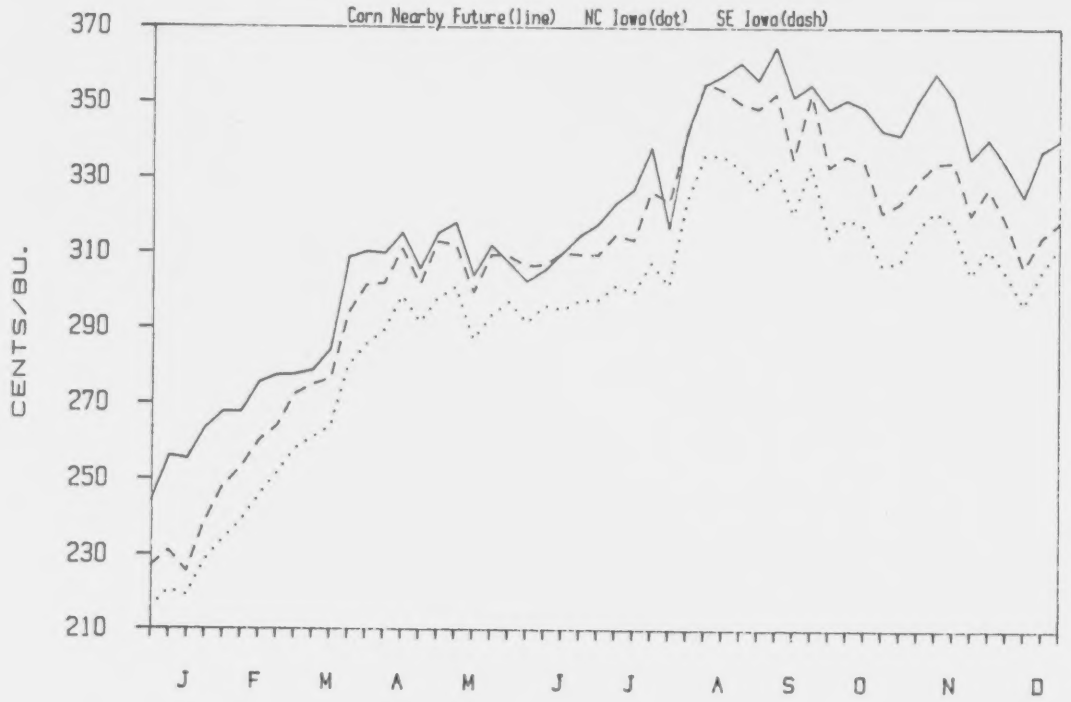


CHART 6

THURSDAY SOYBEAN PRICES OF NEARBY FUTURES, CHICAGO CASH, AND GULF RAIL DURING 1983

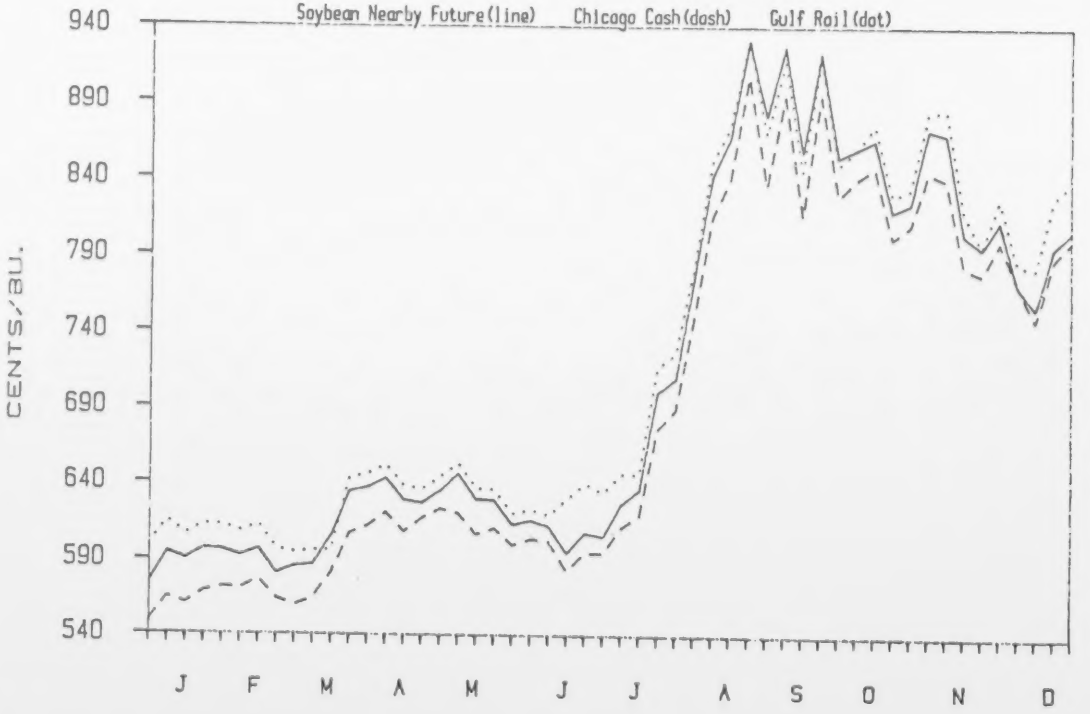
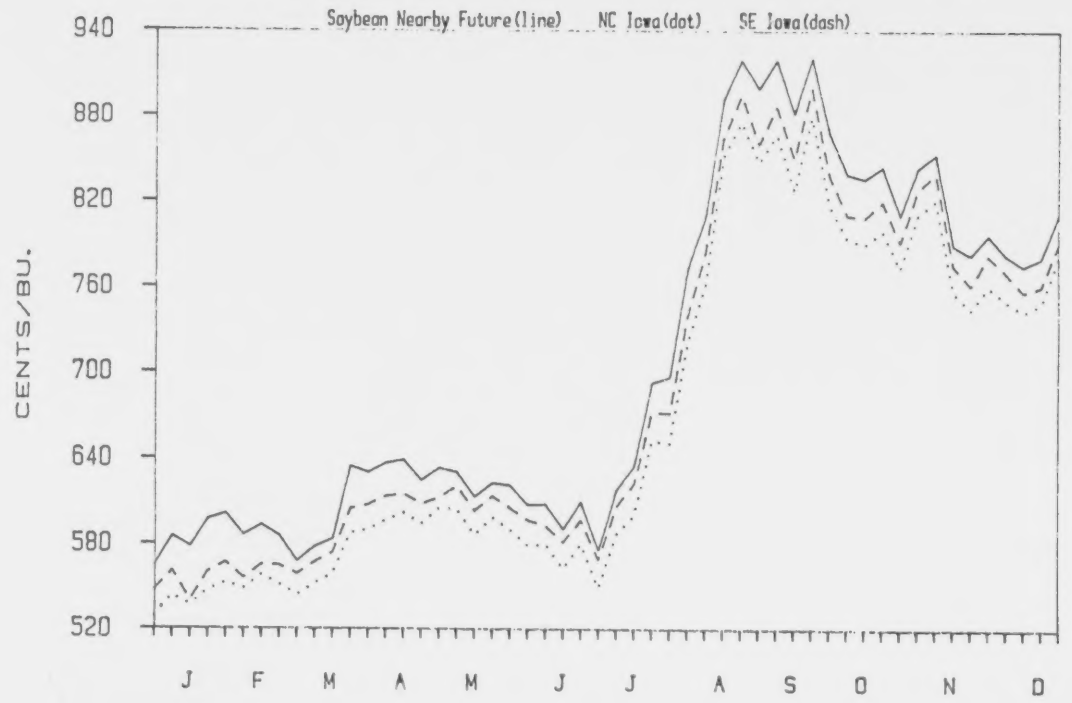


CHART 7

WEDNESDAY SOYBEAN PRICES OF NEARBY FUTURES, N.C. IOWA CASH, AND S.E. IOWA CASH DURING 1983



have shown that price volatility declines after futures markets are introduced (see Appendix). Futures markets decrease price volatility because they improve the flow of information and cause prices to be more accurately determined. As Professor Cox stated, "spot markets seem to work more efficiently because of futures trading" (1976, pp. 1235-36).

Large price moves in soybeans and grains are not uncommon. A review of past soybean price history shows that in 1972/73, soybean futures prices rose from $3.50 a bushel in November to $12.90 a bushel in June and fell to $5.75 a bushel in September. In 1976/77 prices rose from $6.10 a bushel in October to $10.75 a bushel in May and receded to $5.00 a bushel in August. Again in 1980, soybean futures prices rose from about $6.00 a bushel in March to $9.50 in December and fell back to $7.00 a bushel in March of 1981. In 1983, soybean prices rose from $6.00 a bushel in July to $9.50 a bushel in September and fell to $7.60 a bushel in December. While there has been a substantial rise and fall in soybean prices in 1983, the magnitude of this price increase and decrease is less than those recorded in past years. (See Charts 8A-8D.)

PRICE VOLATILITY INCREASES AS THE ABSOLUTE PRICE LEVEL OF SOYBEANS INCREASES.

In the years noted above, relatively high soybean price levels were reached. To determine if there is a relationship

CHART 8A

DAILY SOYBEAN NEARBY FUTURES PRICES

OCT. 1972 to SEP. 1973

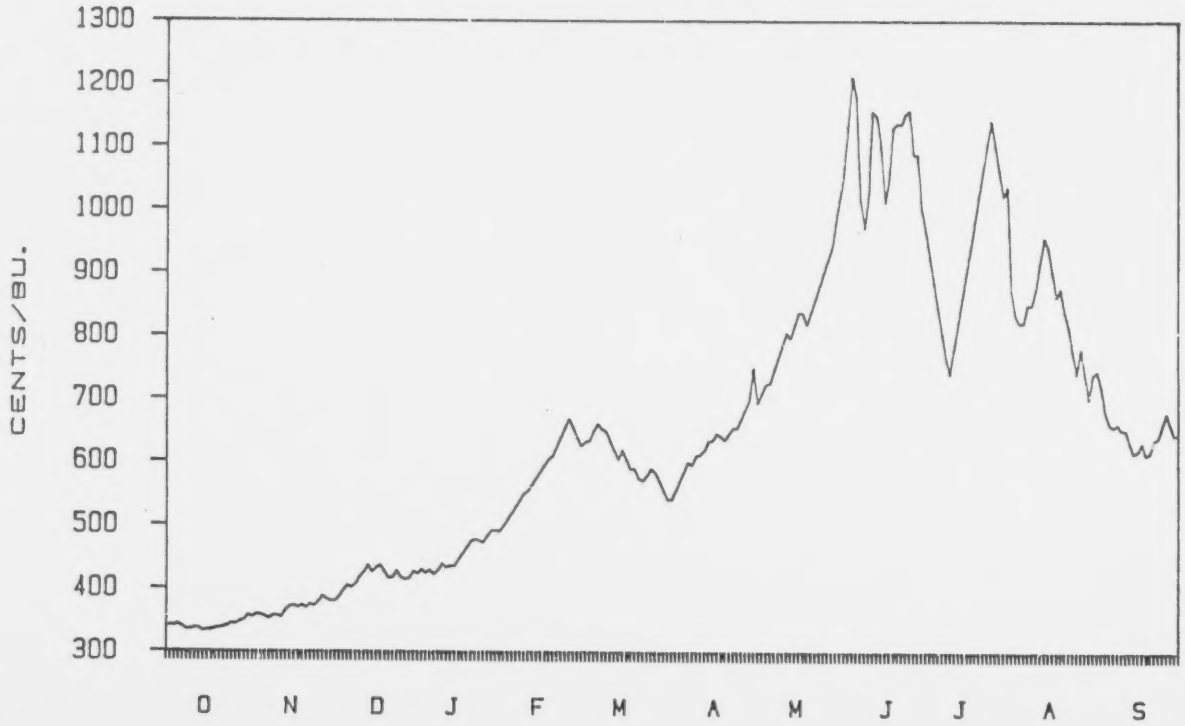


CHART 8B

DAILY SOYBEAN NEARBY FUTURES PRICES

OCT. 1976 to SEP. 1977

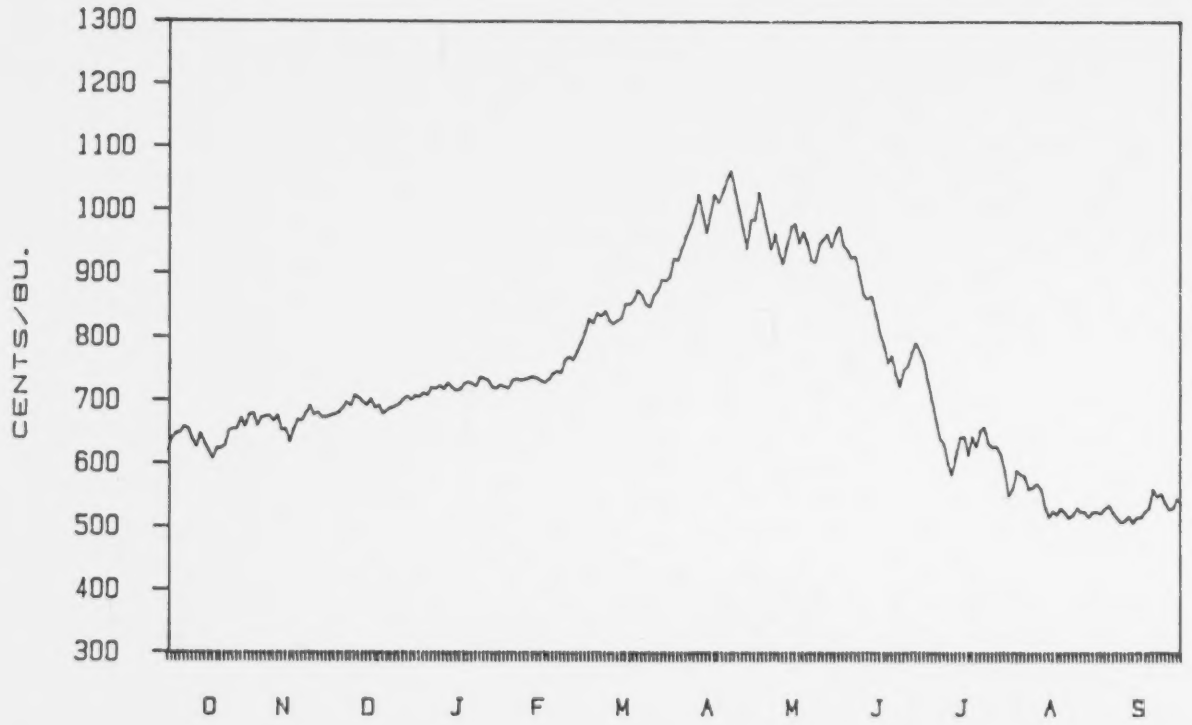


CHART 8C

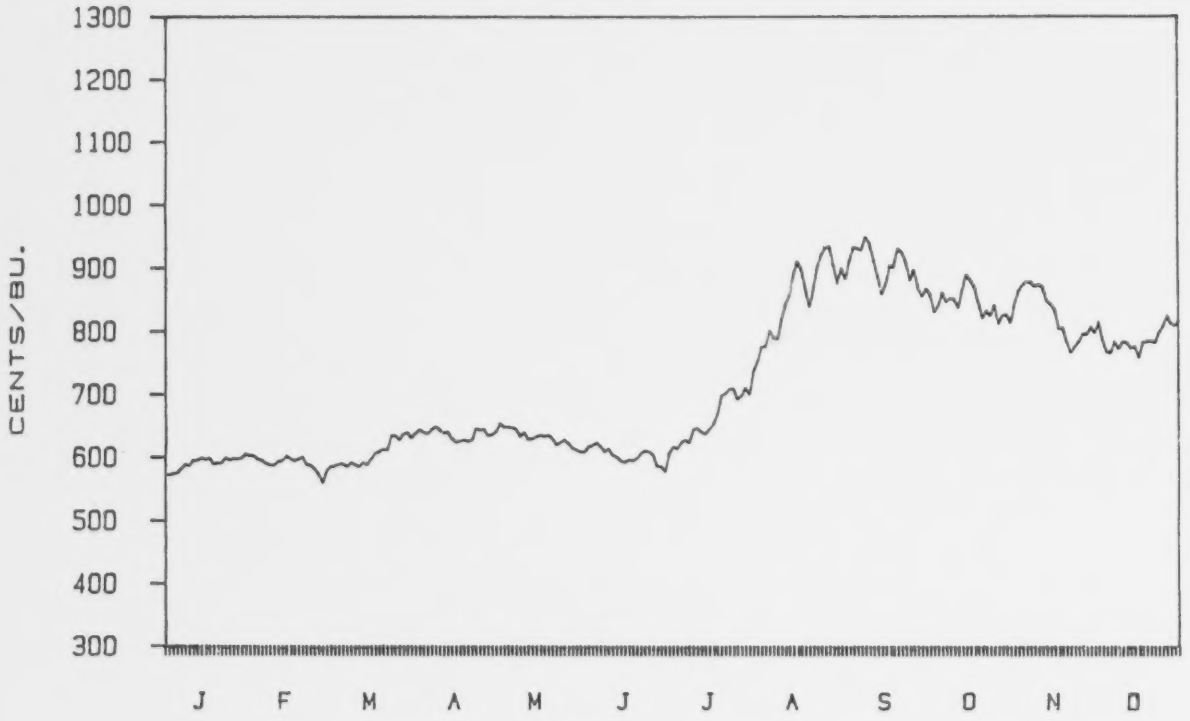
DAILY SOYBEAN NEARBY FUTURES PRICES

MAR. 1980 to MAR. 1981

CHART 8D

DAILY SOYBEAN NEARBY FUTURES PRICES

JAN. 1983 to DEC. 1983

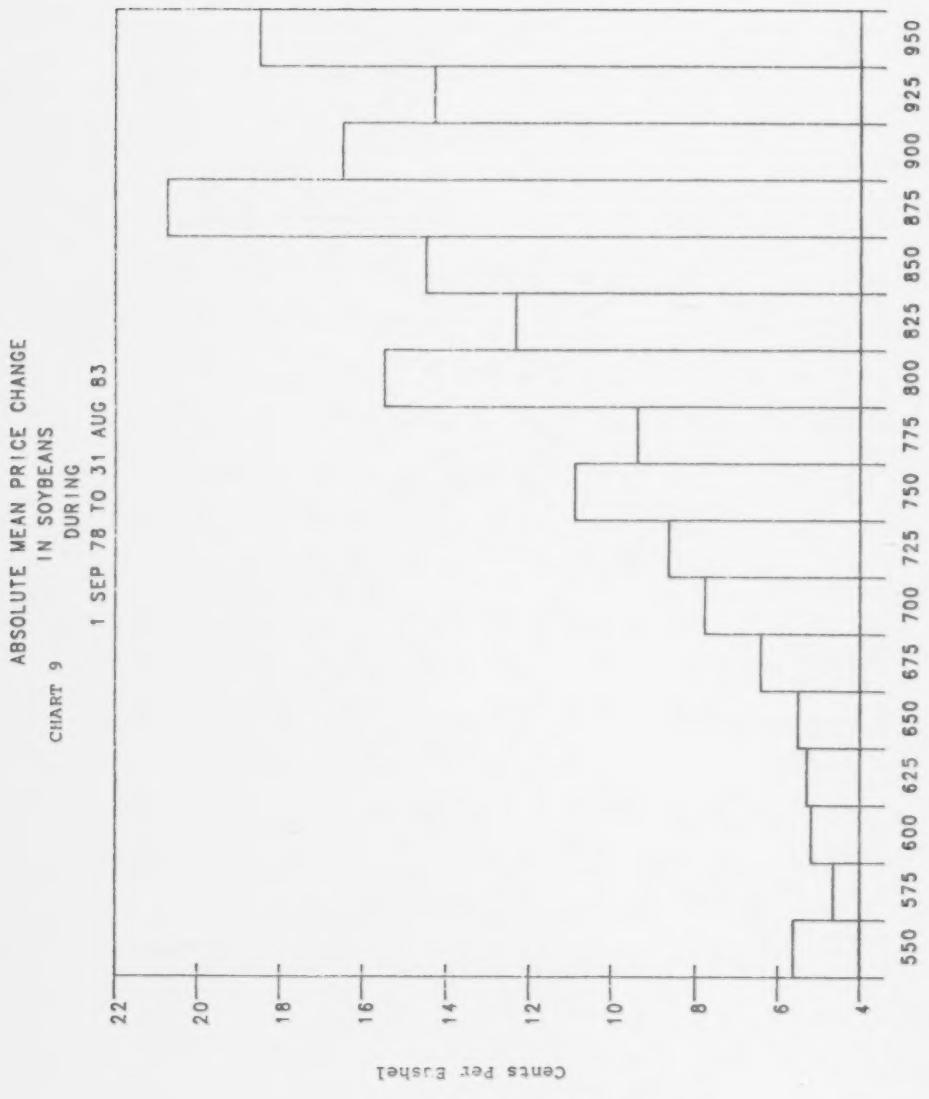


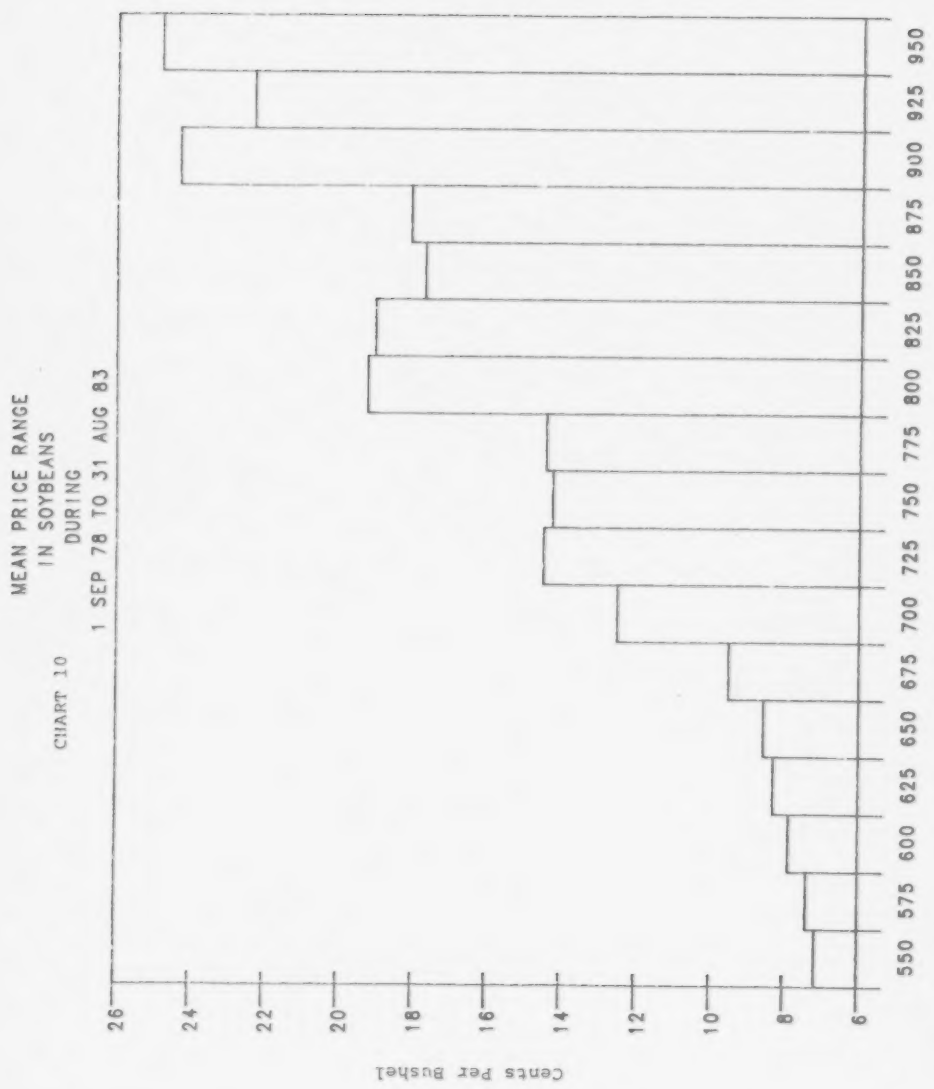
between the price level of soybean futures and price volatility, the average day-to-day changes in futures settlement prices and the average daily trading ranges per 25 cent increments were computed for nearby soybean prices for the 5 marketing years from September 1, 1978 to August 31, 1983. As shown in Charts 9 and 10, price volatility as measured by average change in day-to-day prices and average daily trading range increased as the price level for soybean futures increased. Comparing the 25 cent increments for $6.00, $7.00, $8.00 and $9.00 soybean prices in Chart 9 shows that the average day-to-day price change increased respectively from 5.2 cents to 7.8 cents, to 15.5 cents and to 16.5 cents per bushel. A comparison of average daily trading ranges for $6.00, $7.00, $8.00 and $9.00 soybean prices shows that the average daily trading range increased respectively from 7.9 cents, to 12.5 cents, to 19.2 cents and to 24.3 cents per bushel. (See Chart 10.)

The conclusion that can be drawn from these measures of price volatility is that price volatility increases as the absolute price level increases. The increased price volatility which accompanied the high prices of 1983 corn and soybeans is therefore not unusual.

CHANGES IN THE TAX LAWS CAUSED CHANGES IN THE STRUCTURE OF FUTURES MARKETS.

The Economic Recovery Tax Act of 1981 significantly changed the taxation of profits/losses on futures contracts


ABSOLUTE MEAN PRICE CHANGE
IN SOYBEANS
DURING
1 SEP 78 TO 31 AUG 83
CHART 9
Cents Per Bushel
22
20
18
16
14
12
10
8
6
4
550 575 600 625 650 675 700 725 750 775 800 825 850 875 900 925 950


MEAN PRICE RANGE
IN SOYBEANS
DURING
1 SEP 78 TO 31 AUG 83
CHART 10
Cents Per Bushel
26
24
22
20
18
16
14
12
10
8
6
550 575 600 625 650 675 700 725 750 775 800 825 850 875 900 925 950

which were not hedges. Before the Tax Act, these profits/ losses were taxed in the year in which the futures contract was liquidated. Profits/losses on a long futures position were taxed as short-term capital gains/losses if the position was held less than six months, and taxed as long-term capital gains/losses if held for more than six months. All profits/ losses on a short futures position were taxed as short-term capital gains/losses, regardless of how long the position was held.

The Economic Recovery Tax Act of 1981 requires the profits/losses on all futures contracts outstanding at the end of the tax year to be taxed on a mark-to-market basis each year, in addition to taxing the profits/losses on those contracts which have been liquidated during the year. The Act requires all such profits/losses on futures positions to be taxed as 60% long-term capital gains/losses and 40% short-term capital gains/losses, regardless of how long the contracts are held. In addition, the Act prohibits the deductions of those costs incurred in holding a cash commodity as part of a cash and carry transaction prior to the disposition of the cash commodity.

The Act changed the entire structure of tax incentives for the futures industry. In particular, the Act eliminated the tax incentive of acquiring positions in deferred (and more risky) contract months.[1/] In response to the changed

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1/ Throughout this section, deferred contract months are

(Footnote 1 continued on next page.)

incentives, volume and open interest in the deferred months have declined in both absolute and percentage terms. An examination of the wheat, soybean, corn, Treasury Bond and GNMA futures markets reveals that volume in deferred months declined 43% in the year following the tax legislation and remained at roughly the same level in the following year. Furthermore, although 27.2% of the volume was in the deferred months during the seven year period before the tax legislation, only 16.3% was in the deferred months in the year after the legislation. Only 15.8% was in the deferred months in the following year. Thus, volume and the percent of volume in deferred months declined dramatically after the tax legislation.

Open interest also declined in absolute and percentage terms after the tax legislation. Open interest in the deferred months decreased 1.5 million contracts in the year following the legislation and decreased 1.1 million contracts further in the following year. In relative terms, open interest in the deferred months decreased from 51% in the year before the legislation to 45% and 35% in the two years following the legislation.

(Footnote 1 continued from previous page.)

defined as all contract months except the delivery month (if there is a contract maturing in that particular month) and the next two contract months to expire. The results represent the sum of volume and open interest using monthly data. Open interest was measured on the fifteenth, or the business day closest to the fifteenth of the month.

The Act, which changed the incentives for trading in different contract months, caused the distribution of volume and open interest among contract months to change. The tax legislation also caused the structure of futures markets and futures prices to change. The legislation removed the tax incentive for long-term position trading and spreading in futures markets. As a result, one would expect fewer spreading transactions, particularly fewer small-lot trades, than there would have been under the previous tax laws. Because small-lot orders are essential for liquid markets, any reduction in small-lot trades would have caused liquidity to decline and execution costs to rise. Thus, the tax legislation may have caused futures markets to be less liquid, resulting in larger price moves as orders entered the market and the dissemination of less efficient prices. One would expect the consequences of this phenomenon to be particularly noticeable in volatile markets, as seen in corn and soybean markets in 1983 for the first time since the 1981 Tax Act.

MARKET SURVEILLANCE

The Board of Trade has established an Office of Investigations and Audits, the largest and most sophisticated office of investigations and audits of any futures exchange. This Office continually monitors the performance of the futures market and the trading activities of market participants. When price volatility increases or stress situations

develop, this Office normally conducts inquiries to determine whether improper conduct is involved. In the case of certain grain markets in 1983, Board of Trade staff is conducting such investigations. The Office of Investigations and Audits submits its conclusions and recommendations to the Business Conduct Committee. This Committee is comprised of Board of Trade members who address alleged market integrity problems. In instances of major disciplinary action, the Board of Trade's Board of Directors exercise final authority. And, the Commodity Futures Trading Commission may also review the investigation and disciplinary action taken by the Board of Trade.

In addition to the surveillance of the Board of Trade, the CFTC, on a routine basis, examines the daily positions of traders and trading firms to determine if CFTC-set speculative position limits have been violated. The current speculative position limit for corn and soybeans is 3 million bushels net long or short in any one trading month or all trading months combined. This position limit applies to individual traders or to a group of traders who are trading in concert, explicitly or implicitly.

A public report of open positions of large traders at the end of the month is made available by the CFTC. The reports summarized in Table 3, show that large open speculative positions remained a small share of total open interest

TABLE 3

PERCENT OF OPEN INTEREST HELD AT MONTH-END BY EACH CATEGORY OF TRADERS: 1983

	Reportable Positions 1/								Non-Reportable Positions	
	Non-Commercial				Commercial		Total			
	Long or Short Only		Long & Short (Spreading)							
	Long	Short	Long	Short	Long	Short	Long	Short	Long	Short
					SOYBEANS					
January	13.0	3.2	4.5	4.5	28.2	59.6	45.7	67.3	54.3	32.7
February	5.2	7.7	9.3	9.3	32 9	45.6	47.4	62.5	52.6	37.5
March	15.5	2.6	5.1	5.1	24.4	55.5	45.0	63.2	55.0	36.8
April	12.2	4.5	9.0	9.0	21.4	53.5	42.6	67.0	57.4	33.0
May	3.6	7.7	6.3	6.3	27.0	47.3	36.9	61.2	63.1	38.8
June	4.8	7.3	8.9	8.9	31.0	47.9	44.7	64.1	55.3	35.9
July	15.2	4.0	7.0	7.0	26.3	62.5	48.6	73.4	51.4	26.6
August	13.9	3.4	6.5	6.5	26.8	57.3	47.2	67.2	52.8	32.8
September	13.4	4.0	7.6	7.6	30.9	52.2	52.0	63.9	48.0	36.1
October	8.6	4.2	9.8	9.8	35.5	48.2	53.9	62.2	46.1	37.8
November	5.3	4.9	6.6	6.6	38.9	53.3	50.9	64.8	49.1	35.2
December	9.5	1.5	9.4	9.4	34.9	52.9	53.8	63.8	46.2	36.2
					CORN					
January	10.5	2.4	3.5	3.5	43.2	55.6	57.1	61.4	42.9	38.6
February	11.4	2.5	4.6	4.6	44.8	50.3	60.7	57.3	39.3	42.7
March	9.2	3.0	3.0	3.0	40.6	54.8	52.8	60.8	47.2	39.2
April	6.0	2.6	5.7	5.7	42.3	48.2	54.0	56.4	46.0	43.6
May	2.2	5.8	4.2	4.2	51.8	41.4	58.2	51.4	41.8	48.6
June	4.9	3.8	3.6	3.6	52.5	49.9	61.0	57.2	39.0	42.8
July	9.0	2.8	1.9	1.9	42.9	52.0	53.8	56.7	46.2	43.3
August	7.9	2.2	3.6	3.6	46.2	51.1	57.7	56.9	42.3	43.1
September	6.3	2.7	3.4	3.4	51.4	46.9	61.1	53.3	38.9	47.0
October	4.2	3.8	4.7	4.7	49.1	50.0	58.0	56.9	42.0	43.1
November	3.3	5.1	3.2	3.2	52.3	49.2	58.8	57.5	41.2	42.5
December	2.8	4.3	2.8	2.8	55.1	53.7	60.7	60.8	39.3	39.2

SOURCE: Commitments of Traders in Commodity Futures, CFTC.

1/ Those holding 100 contracts or more.

during 1983. Month-end open interest of large speculators[2/] with open long positions (including spreads) as a share of total open long positions ranged from 9.9% in May to 22.2% in July for soybeans, and from 6.4% in May to 16.0% in February for corn. Large commercials[3/] were a larger factor on the long side as their share of total open long positions (including spreads) ranged from 21.4% in April to 38.9% in November for soybeans and from 40.6% in March to 55.1% in December for corn. Short positions of large speculators (including spreads) ranged from 7.7% of total short open interest in January and March to 16.2% in June for soybeans and from 4.7% in July to 10.0% in May for corn. Again, large commercials played a larger role, holding a share of total short positions (including spreads) ranging from 45.6% in February to 62.5% in July for soybeans and from 41.4% in May to 57.8% in January for corn.

CONCLUSION

The Board of Trade hopes this presentation has aided the Joint Committee's understanding of the corn and soybean markets in 1983. We stand ready to answer any questions you may have.

2/ Those holding 100 contracts or more.

3/ Those holding 100 contracts or more.

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APPENDIX

FUTURES MARKETS FACILITATE THE OPERATION OF AGRIBUSINESS AND THE GENERAL ECONOMY.

Participants in the marketing chain for all agricultural products must bear risks at each link in the chain, from production to ultimate consumption. Participants in the grain marketing chain are no exception. Grain producers face such risks as bad weather, disease and adverse price movement. Country, subterminal and terminal elevators face risks associated with inventory management and pricing. Grain merchants -- including exporters -- face risks which include matching quantities supplied with quantities demanded, arranging for timely transportation and pricing the grain purchased and sold. The users of the grain -- the flour millers, soybean processors, feed manufacturers, corn wet millers and others -- also face risks of timely procurement of necessary inputs and risks of unexpected input price increases which may impair profit margins and perhaps require changes in production schedules.

The risk of adverse price movement is borne by all participants in the grain marketing chain. This business risk can be dealt with by flat price forward contracting, increased farmer or processor storage facilities to hold larger inventories, or incorporating larger margins between prices paid

and charged. However, for many, hedging in futures markets has proved to be a more efficient alternative in dealing with the risk of adverse price movements.

FUTURES MARKETS PROVIDE CASH MARKET PARTICIPANTS WITH A MECHANISM TO REDUCE RISK.

Commercials -- "the hedgers" -- constitute the key component of a futures market. If a futures market were not performing its role as a mechanism for hedgers to reduce price risks, commercials' participation in that market would decrease and the contract would fail. The three main reasons that commercials in the grain marketing chain use grain futures markets to hedge are:

1. Hedging provides a means of reducing risk. The producer or storer who hedges can lock in a price level for his production or inventory and thus protect himself against a price decline. The processor or merchant who hedges can lock in a price level for his grain purchases and thus protect himself against a price increase.

2. Hedging facilitates buying and selling decisions. The merchant who hedges needs only to consider price relatives -- for example, how the selling basis compares with the buying basis -- without having to consider whether the absolute price level is favorable.

3. Hedging gives greater freedom for business action. The producer who hedges has one year or more during which to

decide on an acceptable local selling price for his grain in contrast to the futures price. He is not faced with a possible take-it-or-leave-it price offer from the local elevator at the time he delivers his grain.

Thus, futures markets provide commercials with a mechanism to reduce their price risks. As a result, costs are lower for commercials, prices are lower for consumers, and marketing margins are lower.

FUTURES MARKETS PROVIDE CASH MARKET PARTICIPANTS WITH A COMPETITIVELY-DETERMINED PRICE ON WHICH TO BASE THEIR BUSINESS DECISIONS.

Futures markets provide a major service to commercials by providing a competitive arena for price discovery. A futures market is the focal point for a vast amount and variety of information which no single farmer, elevator operator, processor, merchant or exporter would be able to procure, pay for, manage and interpret. A futures market provides a mechanism for buyers and sellers with various interpretations of this information to confront each other in an environment of free competition. An efficient futures market facilitates the interpretation of this information' incorporates it into the price and disseminates the price widely. Because futures markets exist, agribusiness has a continuous competitively-determined pricing reference. The availability of market-determined price information at essentially no cost enables agribusiness to make more informed

business decisions regarding production, storage, etc. In addition, agribusiness is provided price information without spending enormous amounts of time and money in gathering such information. Without the price barometer provided by the futures markets, many commercials would be without a standard for assessing whether a price is reasonable.

SPECULATION IS ESSENTIAL FOR FUTURES MARKETS TO PROVIDE RISK-REDUCTION AND PRICE DISCOVERY.

Commercial users of futures markets are able to derive the benefits of risk-reduction and price discovery only if speculation is present. Speculators must be willing to take positions in the market opposite to those of commercials and to accept the risks commercials wish to avoid. Speculators must take the long positions opposite farmers and elevator operators placing short hedges. In addition, speculators must take short positions opposite processors and exporters placing long hedges. The role of speculators is frequently misunderstood and speculators are often blamed for volatile prices. Some critics say long speculation is driving prices up. Other observers say short speculation is driving prices down. Still others say that speculators, like other middlemen in the marketing chain, do not deserve a profit. In reality, speculators are an integral and essential part of a viable futures market. Speculators provide the liquidity for commercials to enter and exit the futures market quickly and at a low cost.

FUTURES MARKETS ALSO PROVIDE NUMEROUS BENEFITS TO THE GENERAL ECONOMY.

Although market participants perhaps benefit the most directly from the existence of futures markets, studies have shown that futures markets also provide numerous benefits to the society-at-large. The futures market operates to transform large amounts of diverse information into a readily usable form -- price. This informational role is even greater to the extent that exchanges, exchange members and brokerage firms collect and distribute other types of information on such variables as weather conditions, movements, withdrawals from storage, production, purchases, exports, livestock numbers, etc. The prompt dissemination and ready availability of this information enables those in the marketing chain to save money and time. In addition, it puts small entities on a more equal competitive footing in the cash marketplace with large entities which may have greater access to information.

Both producers and consumers also benefit from the existence of futures markets because futures markets exert a stabilizing influence on cash market prices. Although some individuals mistakenly think that speculation in futures markets causes price instability, economic analyses have demonstrated that speculation in fact facilitates price stability. Studies by Professors Gray (1963) and Working (1958, 1960, and 1963) of onion and potato prices before and

after the establishment of futures markets in those commodities reveal that:

1. The seasonal price range is lower with a futures market because of speculative support at harvest time;

2. Sharp adjustments at the end of a marketing season are diminished with futures trading because they have been better anticipated; and

3. Year-to-year price fluctuations are also reduced because the futures market provides a guide to production planning.

Powers (1970) also found that price volatility declined after pork belly and live cattle futures markets were introduced. He attributed much of the reduced price volatility to the improvements in information flows which futures markets foster. Tomek (1971) studied wheat and Taylor and Leuthold (1974) studied cattle and again concluded that the variation in cash prices decreases when there is futures trading. In a study of six commodity markets, Cox (1976) concluded:

> . . . market prices provide more accurate signals for resource allocation when there is futures trading in a commodity . . . spot markets seem to work more efficiently because of futures trading. (Cox, 1976, pp. 1235-6)

Thus, numerous economic analyses have concluded that futures markets cause cash price variability to decline. Because the existence of futures markets improves the flow of information, futures markets enable the prices to be more accurately determined.

In our free enterprise society, prices play the principal role in guiding production and consumption. Because futures markets improve the ability of prices to perform this function, all of society benefits from futures trading.

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Senator JEPSEN. I thank you, Mr. Kottke, and at the same time reiterate the comment that I gave Mr. West from the Commodity Futures Trading Commission. Please realize that we are not on a witch hunt nor want to be used as a harvester of sour grapes. Nor do we want to serve as a vehicle for patronization.

The questions I ask are asked for clarity. They are not meant to try to probe or to pull out with any one specific member or firm in mind, nor should they be construed to do so.

This morning, one of the producers, Mr. Groot of the Soybean Association, said that one of the first things we want to do is to get a farmer producer on the board of trade. Now, I note by your introduction, you gave a little background of yourself. You consider yourself to be a farmer and producer and are a member of the board of trade.

Mr. KOTTKE. Mr. Chairman, I certainly consider myself to be a farmer. It is something that I have no choice in the matter. That is the way I started and that is the way I continued and that is the way I am sure I will end.

Senator JEPSEN. So we do, in fact, now have or you feel there is a farmer producer on the board of trade presently?

Mr. KOTTKE. Yes, sir. I think there is, and I am not the only person with that type of agricultural background.

Senator JEPSEN. Are there any circumstances whereby members of the Commodity Exchange can benefit from improper conduct, if that is the proper word, or whatever name you want to call it? For this question let us use the word again, manipulation.

Are there any circumstances whereby a member of the Commodity Exchange can manipulate the market?

Mr. KOTTKE. Yes, sir. May I elaborate?

Senator JEPSEN. Yes, sir.

Mr. KOTTKE. We are charged with preventing that occurrence and I underline the word preventing. We try to eliminate those conditions which will allow market manipulation to occur.

Senator JEPSEN. Is it hard to detect? You have an investigation currently, I understand. Is it hard to decide where the line is? Is it a fine line between improper conduct and the risk that goes with speculating?

Mr. KOTTKE. Mr. Chairman, I think that the judgments that have to be exercised in that type of an investigation and viewing that type of investigation—I think those judgments are difficult to make sometimes. I think it is not easy.

Senator JEPSEN. What percentage of an average daily futures volume on the Chicago Board of Trade would be for purposes of pure speculation?

Mr. KOTTKE. I have been thinking about that question since I heard it from the first witness. We have outside participation what we define as nonmember participation, which is in the neighborhood of 24 percent. Now, even a proportion of that is not all speculative. Some of that is commercial. It can be producers. It can be small country elevators, and they are designated as hedgers for margin purposes and identification purposes. The large commercial open interest, which is by definition nonspeculative sometimes account for over half of our open interest. So the pure speculative re-

sidual has to be somewhere less than 50 percent when you look at open interest figures.

Senator JEPSEN. What, if any, volume restrictions are placed on speculators other than the 3 million bushel limit?

Mr. KOTTKE. They are not limited in volume, sir. They are limited in their position.

Senator JEPSEN. Well, position means that they can have over 3 million bushels in any position?

Mr. KOTTKE. No, sir. the rules are quite clear. They are not supposed to exceed a position limit of 3-million bushels whether that is at 11 o'clock or at close.

Senator JEPSEN. Well, will you describe for me now what the difference is between an open position versus actual trading volume?

Mr. KOTTKE. Well, I might give you an example sir. A speculator might begin a day short 2 million bushels of corn, and he then might buy 5 million. So his volume would have been 5 million. He has not violated any position limit. So his trading volume exceeded the position number.

Senator JEPSEN. So he traded seven in this case and ended up with three in his position?

Mr. KOTTKE. Well, he could have traded more. This is an extreme example.

Senator JEPSEN. Well, he started with two?

Mr. KOTTKE. Right.

Senator JEPSEN. I guess this is academic, but it could have been 30 or 33 million, is that right?

Mr. KOTTKE. No, you could not have begun with 30 million.

Senator JEPSEN. You cannot begin with more than 3 million of something one way or the other, is that correct?

Mr. KOTTKE. That is correct.

Senator JEPSEN. So your position is limited to 3 million?

Mr. KOTTKE. Yes, sir.

Senator JEPSEN. Once you get started, you could buy 30 and sell 27, just as long as you ended up with 3 one way or the other?

Mr. KOTTKE. But during the day your position is not to exceed a net total long 3 or short 3.

Senator JEPSEN. All right. By the time I think I have this, I lose it again. Conceivably, how much could an individual member or a member firm buy or sell in 1 day?

Mr. KOTTKE. He is not limited in the quantities that he can buy and sell. He is limited, if I might say, in the net position that he may have at any instant during the day or at the close of trade.

Senator JEPSEN. He can turn over 3 million 10 times, but he could not in any one second be short or long over 3 million?

Mr. KOTTKE. That is correct, sir.

Senator JEPSEN. I got it?

Mr. KOTTKE. Yes, sir.

Senator JEPSEN. I better quit while I am ahead.

I understand that there were absolute trade restrictions in 1977, is that correct?

Mr. KOTTKE. Yes, sir.

Senator JEPSEN. Why did they change?

Mr. KOTTKE. I think that the volume restriction was changed in response to the increased size of the trade. If we review the volume

of all our contracts that are traded, we trade just a lot more corn and soybeans, for example. And so we reviewed this and said we wished to make sure that we can give liquidity in the market. And it was looking particularly at people who—what we call "make the market" did for an instant at a time. They are called scalpers. And they are simply buying and selling and hopefully working to gain a very small margin over time.

If one looks at a scalper, one would see that he is scratching most of these trades. They are bought and sold at the same price. But the point is that as the nature of the market was greater volume, the people who were in the markets needed to be able to trade to accommodate the outside interest that was coming in.

Senator JEPSEN. How does the Chicago Board of Trade generate its revenue?

Mr. KOTTKE. The institution has the following sources of revenue: It has dues and fees which it collects from members. It has dues and fees which it collects from its nonmembers. And it also has two types of fees which are on a volume basis. An individual who would have an order executed on his behalf on the board of trade has a charge assessed by the board of trade per contract traded on the board of trade.

Senator JEPSEN. Do you think it would be fair to have some of these fees to fund the Commodity Futures Trading Commission or a portion of it?

Mr. KOTTKE. Well, Mr. Chairman, the board of trade has addressed this question before and we have maintained a position that we would prefer to maintain our own self-regulatory status and to fund our own office of audits and our own staff, and that we would prefer to say that it is more fair to have our customers pay for our services rather than for the regulatory agency above it. And that has been the exchange's position. And I would say that would be my position as well, sir.

Senator JEPSEN. How do you as a member of the Chicago Board of Trade get selected? That is in reference to this putting a producer on the board, and I asked somebody else how one gets on the board of trade.

Mr. KOTTKE. Do you mean how you are selected to be a director?

Senator JEPSEN. Yes.

Mr. KOTTKE. I believe it is a little bit like life in the Soviet Union. There is only one party and there is one nominating committee, and the nominating committee selects people to be elected. There are choices and you can run as an individual on petition. And then it is an open membership vote for each director, and each director who is a member serves a 3-year term.

Senator JEPSEN. The mechanics I am sure are public. How many votes does it take to keep one off?

Mr. KOTTKE. Well, you mean if one was going to be removed?

Senator JEPSEN. No, to keep one from coming on to the board. Does somebody slip in one blackball?

Mr. KOTTKE. No. Are you talking about becoming a member of the association?

Senator JEPSEN. A director.

Mr. KOTTKE. A director. No, there is no blackball to a director. Now, I would like to add, if I may, we have certain categories of

directors as well. There are nonmember outside directors, one of which is appointed. There are members who are nonresident members. So there are different categories of directors on our exchange.

Senator JEPSEN. What did the membership cost 12 months ago versus today?

Mr. KOTTKE. The cost of the membership has probably gone up about $100,000, or slightly less.

Senator JEPSEN. What specific plans does the Chicago Board of Trade have to implement the November recommendations of the CFTC? Can you give us a timetable?

Mr. KOTTKE. Yes, sir. We have a specific man, and I would like to submit our response which we made to the CFTC as part of the proceedings of this hearing, if I may.

Senator JEPSEN. You may.

Mr. KOTTKE. Thank you.

Senator JEPSEN. Do you feel these recommendations were fully justified? Do you have a quarrel with any of them?

Mr. KOTTKE. No, sir; I do not.

Senator JEPSEN. Were they made in 1982?

Mr. KOTTKE. Yes, sir. Well, there were several recommendations made in 1982 and some additional made in 1983. So there were some carrying over into the 1983 report. Some had already been accommodated.

Senator JEPSEN. Do you have any recommendations for some type of educational programs to build confidence, especially among producers?

Mr. KOTTKE. The board of trade has a long history of working at producer level in education. We work particularly close with exchange groups, and approximately 5 percent of our operating budget is committed to education and it is basically a flow over from when the exchange was simply an agricultural commodity exchange. So our educational interest is very much farm and very much producer oriented. And with the pilot project and agricultural options in front of us, we intend to increase our efforts in that area.

Senator JEPSEN. Good. Do you see as a farmer a sense of basic distrust, if that is the right word, regarding the commodity exchange?

Mr. KOTTKE. Mr. Chairman, I am afraid I have to say that I do sense distrust. And I think that it is something that had been there a long time. It is probably due in large part of the nature of the farmer. He feels that he is a price taker on all fronts.

In other words, he feels that he takes prices given to him for his commodity and he has to take prices set to him for his fertilizer and feed and also for his equipment. And from that perspective, he feels put upon. And it is an economic fact that a large number of small economic competing units—that their commodity is a world price commodity and therefore is subject to vicissitudes of world economists. He does not feel as if he is in control of his destiny.

Senator JEPSEN. What can the exchange do to improve that relationship? Do you have any specific ideas for the record here?

Mr. KOTTKE. Well, I think that it is a very slow battle, and I think that—I believe we are gaining ground. I think that the last

10 years have made agriculture and made farmers, particularly where the role that exports play in price determination.

And that, of course, began with the 1972-73 market. And as we enjoy some of the fruits of those advances, we have also had to suffer some of the setbacks. And I think that the farmer is more market oriented, and I think that he is more appreciative of the markets now than he was a decade earlier. And certainly speaking individually, this generation of farmers is more appreciative than the generation which proceeded him.

Senator JEPSEN. I want to commend the board for their move on these recommendations.

This says in short that they will address all of the concerns expressed by the 1983 review and will institute the programs in order to satisfy those concerns. That is pretty straightforward and that is, from what I understand, mutually agreed on by everyone. It is good to have that.

I will ask if you have any closing statements at this time or anything that you would like to add for the record.

Mr. KOTTKE. Mr. Chairman, I have nothing further to add. I thank you for the opportunity to appear here.

Senator JEPSEN. Well, I thank you and I would like just for the record to make a kind of summary statement.

We had four primary objectives for this hearing. One was to identify and discuss market forces causing such volatility in soybean and corn prices.

Second, Chase Econometrics was to present its 1984-85 economic forecast for the farm sector, thus giving us an indication of what kind of economic environment we may be operating under as we begin debate on the 1985 farm bill.

Third, to discuss and get an update on the CFTC's recommendation to the Chicago Board of Trade. And fourth, to explore the feeling that a few firms may be manipulating the commodity market. Those have been the four primary objectives that were set out to all the parties concerned with this hearing.

What have we learned here today? First, we discovered some common agreements as to what new economic forces influence prices.

Second, there is a general acceptance that there is a lack of knowledge and there is certainly distrust by farmer representatives of the commodity exchanges or producers and potential users of the commodity exchanges.

Third, there is an opportunity for market abuse. Fourth, both the CFTC and the Chicago Board of Trade have ongoing investigations of improper conduct at the present time.

Fifth, the Chicago Board of Trade has committed itself to implementing all of the CFTC's recommendations.

And I think there probably is another dimension to this issue, and that can only be effectively addressed by active traders themselves. And this committee at this time is considering its intention to further explore a very complex, important, and emotional topic, possibly by having a hearing with the active traders themselves commenting.

We will have the record compiled from this meeting in approximately 45 days.

I would ask if you have any comments or any feelings, Mr. Kottke, relative to the advisability of having a hearing asking active traders themselves to testify?

Mr. KOTTKE. May I ask, sir, is it in terms of evaluating the price dynamics of corn and soybeans? Is that the question?

Senator JEPSEN. Somewhat. That is the same general basis that we have this hearing.

Mr. KOTTKE. Well, I would say that if a form such as this where traders could give their views on markets might be helpful. It might further highlight agricultural prices are hinged to some very powerful other activities in this world, interest rates, foreign exchange rates, not just the traditional supply type data that we tend to focus on. I think it might get the attention of other Members of Congress, of other leaders of this country.

Senator JEPSEN. Do you have anything further?

Mr. KOTTKE. No.

Senator JEPSEN. I thank all of the witnesses today and all of those who assisted in this meeting. I wish you all a safe journey home.

The committee is adjourned.

[Whereupon, at 3:25 p.m., the committee adjourned, subject to the call of the Chair.]

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